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Politics this week

Apr 28th 2005
From The Economist print edition

Syria moves out

The last **Syrian** troops left **Lebanon**, 29 years after they first intervened in its civil war and two months after the assassination of a former Lebanese prime minister, Rafik Hariri, which sparked massive protests by Lebanese people blaming Syria for his death.

Three months after a general election, **Iraq's** parliament ratified a new government, to be led by Dr Ibrahim al-Jaafari, a Shia Arab. It includes 17 Shia Arabs, eight Kurds, six Sunni Arabs and a Christian. The ministries of defence, oil and electricity will be temporarily run by Dr Jaafari and two deputy prime ministers. After a lull, the insurgency seemed to be hotting up again.

AP

See article

Moderate Islamists won a large majority of seats in the third and final set of local elections in **Saudi Arabia**, which has been offering voters a real choice for the first time. But half the local councillors will be appointed by government.

See article

In the first visit to Israel by a Russian head of state**, Vladimir Putin** proposed convening an international peace conference to solve the Arab-Israeli conflict. Both the Israelis and Americans said no—or not yet—and Israel complained about Russian missile sales to Syria.

Ali Akbar Rafsanjani, who was president of **Iran** from 1989 to 1997, strongly hinted he would run for the post again, in an election in June. He is cannily placed between the reformers who looked to the outgoing president, Muhammad Khatami, and the more conservative mullahs, who currently call the shots.

See article

Hopes for peace in **Côte d'Ivoire** rose after the country's president, Laurent Gbagbo, agreed to let the opposition leader, Alassane Ouattara, stand for election in October. Mr Gbagbo's previous refusal to do so had stoked rebel anger. South Africa's stock as Africa's peacemaker rose too, since its president, Thabo Mbeki, brokered the deal and urged Mr Gbagbo to give way.

Riots erupted in **Togo** after its electoral commission declared that Faure Gnassingbé, son of the late dictator Gnassingbé Eyadéma had won an election for president. Bob Akitani, the opposition's candidate, said that he won the election and declared himself president.

See article

Martin in a muddle

Canada's political tensions moved towards a resolution. The Conservative opposition said it would join with Quebec separatists to try to bring down Paul Martin's minority Liberal government, triggering an election. Earlier, Mr Martin had agreed to rewrite parts of the budget in return for support from the New Democrats.

See article

Ecuador's new president, Alfredo Palacio, who was installed by a section of the country's Congress, rejected calls from America and Brazil for an early election. The majority faction of Congress sacked the constitutional court and electoral authority, and suspended 11 legislators loyal to the former president, Lucio Gutiérrez, who was granted asylum in Brazil.

EPA

See article

Mexico's president, Vicente Fox, sacked his attorney-general after several hundred thousand people took part in a “silent march” of support for Andrés Manuel López Obrador, the mayor of Mexico City, who was facing contempt of court charges which could bar him from standing in a presidential election next year. Mr Fox said a new attorney-general would review the case and seek to preserve “political harmony”.

The end of the beginning

At the first Senate hearings on President Bush's plans to reform **Social Security**, Democrats remained united in their opposition, and even some Republicans expressed doubts. The chairman of the finance committee, Charles Grassley, said he was determined to produce a bill.

The Senate majority leader, Bill Frist, maintained that he was not interested in making deals with Democrats on Mr Bush's **judicial nominations**, which increases the possibility of a protracted fight to change the rules on filibusters.

See article

At a court hearing in Virginia, **Zacarias Moussaoui** pleaded guilty to conspiracy in the September 11th attacks. He is the only person in the United States to be charged with involvement in the plot. Mr Moussaoui, a French citizen, will now face a separate trial to determine if he should be executed, though his lawyers question his mental fitness.

Richard Riordan resigned as **Arnold Schwarzenegger's** education secretary. The former Republican mayor of Los Angeles has had a frustrating time in Sacramento.

San Diego's mayor, Dick Murphy, resigned less than five months after winning a bitterly contested election for a second term. Mr Murphy faced mounting criticisms of the city's $1.37 billion pension deficit. Donna Frye, a maverick write-in candidate in last year's election who claimed to have received more votes than Mr Murphy, announced that she would run again.

See article

Coming back to haunt him?

Opposition parties trained their attacks on Tony Blair's character and conduct over the war in Iraq as **Britain's** electorate prepared to vote on May 5th. Most pundits forecast that Mr Blair's Labour Party would cruise to a third-term victory, but with a reduced majority.

See article

Italy's prime minister Silvio Berlusconi won a vote of confidence for a new centre-right coalition government after the collapse of a previous administration triggered a political crisis last week.

Germany's Social Democrats and Greens, partners in the ruling coalition, agreed on measures to shield workers from cheap foreign labour by introducing minimum wages in all sectors of the economy. The move comes amid rising concern over next month's elections in North Rhine-Westphalia, where the Social Democrats could lose power for the first time in four decades.

See article

Disaster on the railways

AP

A train crash near Osaka in **Japan** killed more than 100 people and injured more than 400. It was the worst train accident in Japan for 40 years. In **Sri Lanka**, a train crash killed 35 people.

Lien Chan, the leader of **Taiwan's** opposition Kuomintang, visited **China**, the first time so senior a Taiwanese political figure has been to the mainland since the KMT lost China in 1949.

See article

Bashir Noorzai, an Afghan regarded by the United States as one of the world's most wanted **heroin** traffickers, was arrested in America.

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Business this week

Apr 28th 2005
From The Economist print edition

Boeing received a boost over rival **Airbus** as Air Canada and Air India both said they would place orders for long-haul aircraft with the American firm. The deals are a fillip to Boeing, which has fallen behind its European rival in recent years (the company reported a 14% decline in first-quarter net profit compared with a year ago). Meanwhile, Airbus's A380 super-jumbo made its maiden flight near Toulouse, France.

See article

Lockheed Martin reported a 27% rise in net profit for the first quarter compared with the same period in 2004. The world's largest defence contractor is benefiting from the increased demand for IT systems from America's burgeoning security apparatus.

China Southern Airlines, one of China's largest, posted a net loss in 2004 of 48m yuan ($5.8m). Analysts had expected the airline to make a profit, but China Southern was hit by a 57% rise in its fuel bill. The airline gets most of its fuel from China's higher-priced government- regulated domestic market.

Nissan, Japan's second-largest carmaker, recorded a 15% increase in revenue for the year ending March 31st: net profit was up by 1.7% to ¥512.3 billion ($4.7 billion). **Honda**, Japan's third-largest carmaker, said net profit for the same year rose by 4.7%, to ¥486.1 billion. Both companies were helped by strong sales in America, but both also voiced concerns that higher prices for commodities such as steel might curb future growth.

Russian business adventure

BP announced a record first-quarter net profit of $5.5 billion. Meanwhile, Lord Browne, BP's chief executive, said he felt “reassured”, after a meeting with Russia's president, Vladimir Putin, that the oil giant would not be unfairly targeted by Russian authorities. Russia recently levied an unexpected claim for $1 billion in back taxes against BP's joint-venture, TNK-BP.

Valero Energy, an independent oil refiner, agreed to buy **Premcor**, a smaller rival, in a deal worth around $8 billion. The move will create America's largest oil refiner by increasing Valero's capacity to 3.3m barrels a day.

Eurotunnel, the operator of the tunnel that links Britain and France, reported a net loss in 2004 of £570m ($1 billion); in 2003 the company made a loss of £1.3 billion. Eurotunnel also gave warning that unless it could reschedule £6.4 billion in debt it would run out of money in 2007.

DoubleClick, an internet marketing company, revealed that it would be bought by Hellman & Friedman, a private-equity firm based in San Francisco, for $1.1 billion. DoubleClick advises companies on internet marketing campaigns but faces fierce competition that has squeezed its profit margins, despite hefty increases in online advertising.

Amazon posted a 30% fall in first-quarter net income compared with a year ago. However, revenue increased by 24% to $1.9 billion, helped by a sharp rise in the sale of electronic goods.

Reaching closure?

Adelphia Communications agreed to pay $715m to settle claims of fraud and misuse of corporate funds; the cable company has been in bankruptcy protection since 2002. Meanwhile, **Deloitte & Touche** agreed to pay $50m, the largest settlement ever by an accounting firm with the SEC, for its failure as

Adelphia's auditor to spot the fraud.

Arthur Andersen brought an appeal to America's Supreme Court against a conviction for “witness tampering” in connection with its destruction of documents related to Enron. Separately, the accounting firm agreed to pay $65m to settle claims that it should have done more to root out financial abuses at WorldCom, an audit client.

See article

Regulators in New York found another reason for scrutinising **American International Group**. They suspect that several years ago the giant insurer booked workers' compensation premiums incorrectly, and thus may have avoided paying its share of state compensation funds.

See article

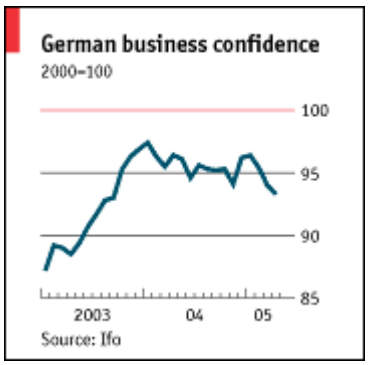
America's economy slowed in the first quarter of the year. It grew at an annualised rate of 3.1%, which was below economists' expectations and the slowest for two years.A

The European Union said it was launching an inquiry on a surge in imports of Chinese **textiles**; imports of pullovers alone rose by 534% in the first quarter of 2005 compared with the same period in 2004.

Not-so-great expectations

Business confidence in Germany fell to its lowest level in 19 months, according to Ifo. The outlook for the next half year was also more pessimistic. Adding to Germany's gloom, a report from the country's leading economic institutes slashed their GDP forecast for 2005 to 0.7%.

See article



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Energy policy

The real trouble with oil

Apr 28th 2005
From The Economist print edition

How to avoid the next energy shock

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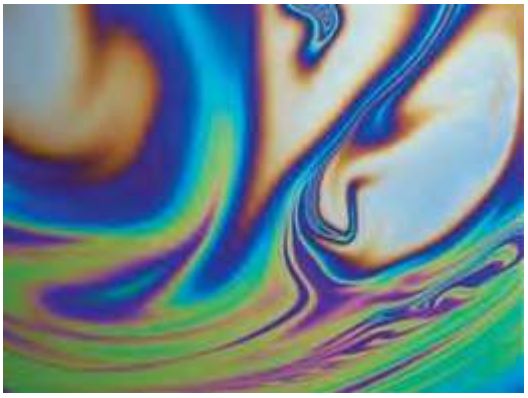

A YOUNG Winston Churchill, on the eve of the first world war, took a gamble that changed the course of history. As First Lord of the Admiralty, he decided to convert the British navy from Welsh coal to imported oil. The resulting gains in speed gave Britain's navy a decisive advantage over Germany's. It also set off a geopolitical scramble as Britain sought to secure oil supplies before its rivals did. Churchill believed that “safety and certainty in oil lie in variety, and variety alone.”

By mid-century, America was the superpower scrambling to secure oil supplies around the world. Fearing depletion of its vast domestic store of petroleum, America forged an alliance with the then-new oil province of Saudi Arabia (whose crown prince was visiting George Bush again this week, see article). Driven by the same desire for energy security, today's aspiring superpowers are in a similar race. China and India have recently tried to bribe, bully or buy their way into “equity oil” in Latin America, Canada, Russia and Africa.

No place to hide

And yet the billions they are spending on this quest for energy security could well be wasted. Thanks to the spectacular rise of futures trading, oil has become a fungible global commodity. The conventional notion that stakes in oil fields add up to energy security no longer holds up: if there is an oil shock, then the market price of every barrel of oil in the world will shoot up past $100 a barrel.

A similar folly is unfolding in America, where Congress is trying to boost “energy independence”. It is now considering an energy bill that would allow oil drilling in pristine parts of Alaska and would dole out billions in subsidies for the oil and gas business. This is mad. America has so little oil, and guzzles so much, that it will never again be energy-independent while relying on oil. America's best hopes for energy security lie in the resilience of global oil markets, in conservation and in alternative energy sources.

As ministers from the world's largest energy-consuming economies gather in Paris on May 2nd for a summit, they will naturally worry about the effects of high prices on their economies. But consuming countries are not the only ones that should be worried. As our survey of oil in this issue explains, the arrival of $50-a-barrel oil actually heralds big trouble for oil firms and producing countries as well as for consumers.

High oil prices have not yet produced an economic shock among consuming countries, but further rises, especially sharp ones, would undoubtedly hurt the world economy, and that would inevitably harm producers too. Beyond this obvious point, however, higher prices could even do harm to both oil firms and producers.

Big oil firms may be rolling in money today, but that disguises the fact that their longer-term prospects are bleak. Behind the reserves-accounting scandal at Royal Dutch/Shell lies a problem bedevilling all of the majors: replacing their dwindling reserves. Just as existing fields in Alaska and the North Sea are rapidly declining, OPEC countries and Russia are shutting them out. If they are to survive in the long term, the big oil firms must embrace other sources of energy aside from oil.

As hard as it is to believe, higher oil prices could be bad news for producing countries as well. Political leaders in Russia, Venezuela and other oil-rich countries are bending laws to crack down on foreign firms and to strengthen their grip on oil revenues through state-run firms. This may be convenient for the political leaders themselves. Alas, it is unlikely to do much for their countrymen. Corruption and inefficiency have been the typical results of government control of oil resources.

Producing countries should instead embrace open markets. For one thing, shutting out foreign investment will only hurt their own oil output by excluding the sharpest managers and latest technologies. For another, economic liberalisation (including reform of bloated welfare states) would help OPEC countries diversify their economies—as the NAFTA trade deal has done for oil-rich Mexico—and so prepare them for the day when the black gold starts running out.

Fifty-dollar oil has yet to buffet consumers, but sooner or later petroleum's dominant grip on transport will lead to an energy shock of some kind. As this week's survey explains, this is not because the oil is running out. The real problem is not scarcity but concentration. About two-thirds of the world's proven oil reserves lie in the hands of just five Persian Gulf countries. As the market share of those regimes soars, so too will the chance of disruption, embargo or worse.

That is why the energy ministers gathering in Paris next week would be wise to look beyond oil. The right energy policy for governments everywhere is to get energy prices right, at home. For a start, they should halt the vast sums lavished on fossil-fuel industries as tax breaks, below-market royalty payments and other hidden subsidies. Even developing countries waste scarce resources on blanket energy subsidies. Just as important is the embrace of green taxes. Burning petrol harms human health and the environment. Add in the geopolitical costs of oil, and the case for raising petrol taxes in many countries, especially in America, becomes overwhelming.

Safety still requires variety

If George Bush scrapped America's pork-laden energy bill in favour of such a market-based approach, he would be applauded by many on the left and right alike. Greens would cheer, of course, but so too would many conservatives. In recent weeks, leading conservatives concerned about the security risks of Middle East oil have called for a shift towards domestic energy sources (there is even a faint hope for cold fusion—see article). Mr Bush has already shown support for technologies such as hydrogen and fuel cells, which in time may well replace petrol and the internal-combustion engine. He should craft policies that would at last begin to wean America, by far the world's largest energy consumer, from its fierce addiction to oil. As in Churchill's day, energy security still depends on variety. But now that variety needs to be sought in sources of energy, rather than sources of oil alone.

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Executive pensions

Far from retiring

Apr 28th 2005
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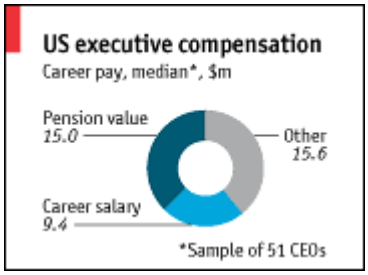
Pensions should be brought into the debate about bosses' pay and performance



THERE has been a welcome shift in bosses' pay away from stock options, which are often tenuously related to performance, and towards discretionary bonuses, which are set by board pay committees. In 2004 the award of stock options to American bosses fell for the second year running, while bonuses increased on average by over 20%. But one element of compensation has been largely overlooked in the debate about how best to align pay and performance—pensions.

Most studies ignore these because the figures are not generally available, and because there is a feeling that pensions do not motivate in quite the same way as cash "straight into the bank at the end of the month". Pensions, though, are in reality just deferred pay, and the incentive effect of performance-related pay would surely be diluted if the recipient is guaranteed a post-retirement income of several million dollars a year.

A remarkable new study by Lucian Bebchuk and Robert J. Jackson of the Harvard Law School shows how often the sums involved are indeed of this magnitude. The authors looked at the extent of the undisclosed pensions of a cross-section of American bosses with so-called "defined-benefit" schemes, ones whose pay-out is related to the individual's final salary and years of service. The ultimate actuarial value of such schemes is hard to determine until the recipient nears retirement age. Hence the authors took a sample of American bosses who had recently retired, or who were about to.

The amounts involved are not insignificant. The value of the pension plan of Hank McKinnell, the chief executive of Pfizer, is well over $70m, more than the total compensation he has received during his years as head of the company. This is still a small percentage of Pfizer's profits, but at Black & Decker the value at the end of 2003 of the pension of Nolan Archibald, its chief executive, was equal to about 1% of the firm's total market value. This month, United Airlines said that ditching its defined-benefit pension plan could save it $645m a year and help keep it from bankruptcy.

The authors also found a huge variation in the size of bosses' pensions. The actuarial value of their sample varied from $3.3m to $73.4m (the latter for Lee Raymond of Exxon Mobil who will receive $5.76m every year of his retirement until he dies). About one-third of the chief executives had no disclosed pension benefits at all. But some had what amounted to much the same thing. Henry Silverman of Cendant, for example, is to receive consulting fees on his departure worth about $1m a year for the rest of his life. Dennis Kozlowski, the former boss of Tyco currently on trial for fraud, deferred cash bonuses of $18.7m that he was due to receive in 2000.

Messrs Bebchuk and Jackson rightly argue that the lack of disclosure of pensions and other forms of "stealth compensation" leads to "significant overestimation of the extent to which executive pay is linked to performance". Without their pensions, the non-variable element of the compensation packages of the authors' sample (ie, the lump not affected by performance, in most cases the basic salary) is 15% of the total; including pensions that rises to 39%.

To bring pay more into line with performance and to gauge the true level of risk, investors need to know the value not only of stock options and bonuses granted to top executives, but also of their pensions. To find that out at the moment shareholders need the skills of Harvard research assistants and a generous budget. This should not be the case.

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The Doha round

Time to rev the engine

Apr 28th 2005
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The global trade talks urgently need some political oomph

Get article background

LIKE a clapped-out car, the Doha round of global trade talks seem to be stalled more often than not. Some breakdowns are spectacular, such as the acrimonious collapse of the Cancún meeting of trade ministers in September 2003. At other times, the talks simply lose all momentum. That is the situation today. Negotiations on farm trade are suspended over a technical dispute and the haggling over how to liberalise trade in industrial goods and services is going nowhere. Next week, trade ministers from many of the World Trade Organisation's most important countries will meet in Paris. These ministers need to kick the Doha talks back into gear. Time is running out for a successful completion of the round.

That may sound alarmist. After all, previous trade rounds have dragged on for years. But that is unlikely to happen this time. George Bush's fast-track negotiating authority—which limits the ability of America's Congress to unravel any trade agreement—runs out in July 2007. Mr Bush barely won initial congressional approval for fast-track. Given rising protectionist sentiments among American lawmakers, another renewal two years from now looks extremely unlikely.

That suggests that any Doha agreement must be signed by early 2007 at the latest. Conventional wisdom among trade boffins is that it takes a year to wrap up a trade negotiation once the big political breakthroughs have been made. On this calculation, the WTO's ministerial gathering in Hong Kong in December 2005 is the real deadline for a big Doha deal.

With little more than six months to go, such a deal is nowhere in sight. The talks on services—to free up trade in areas from telecoms to legal work—are a mess. According to the official timetable, all WTO members (except the very poorest) were supposed to have made initial offers two years ago, saying which services they would liberalise. In fact, almost 40 countries—including big emerging economies, such as South Africa, Pakistan and the Philippines—have not done so. Talks on cutting industrial tariffs have also stalled. Brazil and India recently proposed a formula for tariff-cutting that virtually ensured emerging economies would not cut anything.

On farm trade, the situation is even worse. Negotiators have not focused on key questions, such as how to structure tariff cuts or how much to cut subsidies. Instead, they have wasted several months haggling over the technical issue of how to convert tariffs to a common measure. A compromise was scuttled earlier this month after the European Union balked, claiming there had been a “misunderstanding” over what the agreement entailed.

Everybody's at fault

The blame for this sorry state is widely shared. Big emerging countries, such as Brazil and India, are still keener to bemoan rich-world farm subsidies than to open their own economies. China, despite its importance, has shown shamefully little leadership. Too many developing countries refuse to make any concessions on services or industrial tariffs until they see progress in the farm talks. Although once understandable, this strategy now looks like a recipe for overall failure.

But the striking shift in recent months has been the lack of political leadership from the world's trading giants, the EU and America. Washington's ability to lead has been hampered by the lack of a trade representative. That is about to change. Barring last-minute hiccups, the Senate looks set to confirm Rob Portman, Mr Bush's widely-respected nominee, this week.

The EU has not lacked a trade representative, but it may not have the right one. Peter Mandelson, the EU's trade commissioner, raised eyebrows last week with a speech that suggested cotton, an area where the Americans are egregious subsidisers, should be dealt with more quickly than other areas of the farm talks. While his stated aim—to help poor West Africans—was laudable, Mr Mandelson's remarks were guaranteed to infuriate Washington, with whom his relations are already rocky, thanks to a full-blown row this year about the long-running dispute over subsidies to Boeing and Airbus.

Messrs Portman and Mandelson need to start afresh. Rather than sniping at each other, they must work together to get the talks moving, and must cajole others to do the same. If they do, the Doha round still stands a chance of success. If not, the talks will soon end up on the scrap heap of history.

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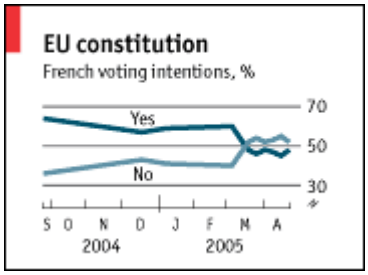
France's EU referendum

That damned, elusive constitution

Apr 28th 2005
From The Economist print edition

A French no should not be treated as a big crisis for the European Union

Get article background



IF YOU put something to the vote, it is foolish to predict that there will be a huge crisis if you lose. Unfortunately, Europe's leaders tend to be foolish, as the current hysteria about a possible French no to the EU's constitutional treaty on May 29th shows. Indeed, when some assert that a no will mean the end of Europe, one wonders not just about their judgment but about their belief in democracy. One aim of this constitution was to bring the EU closer to ordinary people. If the people choose to reject the result, should they be blamed—or the leaders who tried to sell them such an incomprehensible text?

As it happens, there are four weeks to go before the vote in France. Despite a string of negative polls, a yes remains possible. But there are at least eight referendums to come after this one, including a Dutch one three days later. To anybody but Europe's foolish leaders, this should make it obvious that they need to think of an alternative: a plan B. And it is equally obvious what such a plan B should be. If the present text proves unacceptable, the EU must go away and produce another that is shorter, simpler and sets out the distribution of powers more clearly—and is thus more readily saleable to voters.

At this point, yes campaigners raise a fundamental objection. The trouble, they say, is that voters in different countries have different, conflicting (and often extraneous) concerns. Some would prefer deeper integration and a more “social” Europe; others want less centralisation and more liberal economics. The constitution was a compromise among these views, and any attempt to negotiate a new one will be a similar compromise—which would run into the same ratification problem as today's. Besides, voters who are against the constitution because they dislike their governments, or because they don't want Turkey in the EU, will vote against anything.

Yet it is hard to accept this defeatist case that nothing can be done to produce a better and more easily saleable constitution. And in fact, two common threads can be detected among most naysayers. One is disaffection with Brussels, and a preference for more national freedom (whether to be liberal or social) from EU diktats. The second is for a simpler and shorter document than the 500-plus-page behemoth that has been dumped on voters' doorsteps. Like the aim of bringing the EU closer to its people, simplification was a forgotten part of the 2001 Laeken declaration that led to the constitution.

The dangers of the “hard core”

This being the EU, the shock of a no, especially one from France, is more likely to lead to inaction (and recrimination) than to redrafting. No harm in that: a pause for reflection may help. The EU can keep working on the basis of the Nice and earlier treaties. A return to the drawing-board would still be desirable, as the EU needs a better constitution to clarify its distribution of powers. But inaction would be better than some alternatives, such as turning inwards to create a hard core of true believers in closer integration. Plans like these are dangerous because they might put at risk one of the EU's greatest achievements, and at a critical moment: its enlargement to embrace the neighbours.

One year on from the enlargement that took in eight countries from central Europe last May, the EU has contracted a dose of “enlargement fatigue” (see article). Indeed, the disillusionment with Brussels that is driving so many French voters to say no to the constitution is linked to past (and future) enlargements. Many in France have come, illogically, to blame the new central European members for stealing their jobs

and investment: for *délocalisation* in the popular word. For similar reasons, but also for fear of Islam, even more are deeply averse to plans to admit the biggest applicant of all, Turkey.

Doubts over enlargement are misplaced. Because it brings in more dynamic economies with, in Turkey's case, a growing population, enlargement is good for the EU, as well as for the new members. It also fosters peace and prosperity on the EU's borders: consider the past year's changes in Ukraine, in part inspired by hopes of one day joining. There is no reason why a no to the constitution should stop or slow down the EU's expansion: as the yes campaign in France has grown hoarse explaining, Turkey, which will not join for a decade, has nothing to do with it. It would be a great blunder if Europe's foolish leaders allowed a no vote to derail their commitment to admit more new members, especially to begin membership negotiations with Turkey in early October.

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Curbing proliferation

How to stop the spread of the bomb

Apr 28th 2005
From The Economist print edition

The world's anti-nuclear rules are in urgent need of tightening

AP

Get article background

THE numbers of nuclear weapons in the stockpiles of the five officially recognised nuclear powers—America, Russia, China, Britain and France—are collectively at their lowest in decades and set to drop further. Yet you would never know it, to judge from the likely bad temper as diplomats from 190 or so countries gather next week in New York for their once-in-five-years review of the Nuclear Non-Proliferation Treaty (NPT). The failure of the official five to disarm faster, many will insist, weakens the bargain that underpins the NPT. Under this, the have-nots forswear nuclear weapons and the wherewithal to build them, in return for civilian nuclear help. The five also promise to dismantle their bombs—eventually, and as part of general disarmament.

Critics of the dawdling disarmers have a point: the official five, and especially America and Russia, still have too many nuclear weapons. These two countries have agreed to reduce their arsenals to 1,700-2,200 warheads each, with plenty more in reserve, by 2012. But of the realistic threats that either might face in the coming years (including from an expanding Chinese nuclear arsenal), none could not be deterred by far fewer weapons. Where some of the critics are dangerously wrong, however, is in using attacks on the pace of planned reductions as cover for doing next to nothing about a far bigger threat to the NPT: the proliferation of weapons-useable technologies to countries bent on breaking or bending its rules.

Over the years, all countries bar India, Pakistan and Israel have signed up to the NPT, reassured that the treaty would prevent neighbours from acquiring nuclear weapons. That is changing. North Korea claimed to have quit the treaty two years ago, but not before it had been caught secretly dabbling in both plutonium and uranium, from which bombs can be fashioned. Whatever the truth to its boast of a nuclear arsenal, the bomb tinkering would have started many years ago.

Iran, for its part, insists it wants to produce electricity, not weapons. Yet it deliberately lied to inspectors for two decades to cover up activities and experiments that make little sense except in pursuit of a bomb. Libya at least turned itself in. Last year it admitted to having secretly bought uranium-enriching machines from Abdul Qadeer Khan, father of Pakistan's bomb but also founder of a worldwide network of nuclear smugglers. Mr Khan tossed in the proven design for a warhead (originally supplied to Pakistan by China) to sweeten the Libya deal. Did he do so for Iran and others he had dealings with?

There are no easy fixes for proliferation problems when governments will cheat, when the basic

technologies to be controlled are more than 60 years old and when lax export rules allow the Mr Khans to order up nuclear bits and pieces from across the globe. So is the NPT doomed? Not if those queuing up to sling mud at the nuclear five, but chiefly America (see article), were to devote as much energy and more imagination to making life harder for the would-be cheats.

Ideas whose time has come

It is high time for the toughened safeguards drawn up in the 1990s by the International Atomic Energy Agency, the UN's nuclear guardian, to be made mandatory. Yet, contrary to NPT rules, more than 30 members, including Saudi Arabia, have no safeguards agreement at all with the agency, not even the inadequate 1970s version. Among those yet to commit fully to the tightened rules are Iran (which is now “voluntarily” applying the rules, up to a point), Egypt, Syria, Brazil and Argentina, all of whom have been suspected of nuclear ambitions at one time or another. Another overdue reform could make it harder for countries to cheat and run, by extending the notice for withdrawal from the treaty and demanding that equipment obtained under civilian pretences be dismantled.

More effective still would be a repudiation of Iran's claim that it has an “inalienable right” to whatever nuclear technology it likes, including for making plutonium and uranium, even though it has broken treaty rules, doesn't have a single working reactor, and the one it will have will use Russian-made fuel. All the NPT actually promises its signatories is the right to enjoy the benefits of civilian nuclear power—as many do without such dangerous technologies—and then only in strict conformity with the ban on weapons-related activity.

If the NPT is not defended it will unravel. Criticism of the official five at the treaty review would look less self-serving if those who claim to value the treaty were also doing their utmost to uphold its central purpose: halting the spread of weapons capabilities. So far, too many are not.

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Our British election endorsement

There is no alternative (alas)

Apr 28th 2005
From The Economist print edition

For want of a better option, we favour another Labour victory on May 5th

Reuters

IF BRITAIN'S general election were simply a referendum on Tony Blair and the Labour government he has led since 1997, then there would be a real possibility that the voters would give him, and Labour, a slap in the face. That would also be *The Economist*'s instinct, though no doubt for different reasons. But it isn't a referendum: it is a choice, one about which of the three big national parties offers the most credible and suitable government for Britain's next four or five years. On that, our answer is the same as the one suggested by the opinion polls: the winner should again be Labour, led by Mr Blair.

Most elections are won or lost on the economy, wealth and jobs. In that case Labour should be further ahead even than it is. Britain has enjoyed 13 years of uninterrupted, pretty steady economic growth, eight of them under this Labour government. Much of the credit due to Labour is for carrying on with the pro-market inheritance from Margaret Thatcher, but Gordon Brown, Labour's chancellor, also deserves praise for having given independent control over monetary policy to the Bank of England in 1997 and for keeping both public spending and taxes under control in his early years in office. For that reason, voters may feel calm about the likelihood that Mr Brown will succeed Mr Blair as prime minister at some stage during the next four years. He is unlikely to change his economic ideas just because he moves his office to 10 Downing Street.

Yet if voters feel calm about the economic prospects, they shouldn't. For the Blair-Brown team—which is what it mostly is, despite their rivalry—has been storing up trouble for the future. Thanks to a surge in public spending that began just before the last election in 2001 and to disappointing tax revenues, the public finances have swung from a surplus of 1.6% of GDP in 2000-01 to a deficit of 2.9% in 2004-05. That has happened even though the slowdown in economic growth has been moderate. With spending on health scheduled to continue to grow rapidly until 2008, something is going to have to give. Either other spending will have to be cut by more than is now planned, or taxes will have to rise, quite sharply.

Just a technical matter, you might say: Britain has a strong, flexible economy these days and does need more money spent on its still-too-tatty public services. But that is too sanguine. A weak housing market already bodes ill for consumer spending; one way or another, the stimulus from public borrowing is going to have to be eased; and with oil at $50 a barrel, global economic growth is slowing too. Moreover, Labour has been making things worse by adding to the regulatory burden on business and by making the deficit in corporate pension schemes bigger than it would otherwise have been.

So although the economic record points to a resounding endorsement for Labour, the prospects do not. Whether Mr Brown would be more left-wing as prime minister than he has been as chancellor is beside the point: he has stored up these problems even as Mr Blair's chancellor. The trouble, though, is that the alternatives look no better. The Liberal Democrats want to raise the top income-tax rate from 40% to 50%, and to spend more on public services. The Tories promise to cut taxes, but by so little that the difference between their plan and Labour's disappears in the margin of statistical error. They think that the health service, not the economy, is their main electoral challenge, and so have promised to carry on with Labour's spending levels and its gently market-based health-service reforms. That judgment may well be right, and the reforms do need to be carried through if they are to work. But it offers no reason to switch to the Conservatives.

Wanted: a liberal, fiscally conservative, alternative

The basic background to this election is that Mr Blair has continued to hog the centre-right ground in British politics, as he has done ever since becoming Labour's leader in 1994. Michael Howard, the Conservative Party's leader since 2003, has sought to share some of that ground, at least on the NHS. But he has blurred his party's own identity by failing to offer a tax-cutting alternative and by his appallingly hypocritical opposition to Mr Blair's brave effort to ease universities' financial problems by allowing them to charge fees to British students—a reform that could have been taken from a Thatcherite textbook. Hence Mr Howard's resort to traditional Tory populism on immigration in order to make his party look distinctive. To *The Economist*'s taste, this is a terrible move: we favour fluid migration, both on grounds of liberty and for practical economic reasons. The Tories instead favour illiberal limits and a labour-allocation system that smacks of central planning.

The Liberal Democrats are more to our liberal taste: they also support immigration and rightly opposed Mr Blair's draconian anti-terrorist measures, especially house arrest. They ought also to have opposed his ban on fox-hunting, but most Lib Dem MPs didn't. They were, however, opposed to two things that commend Mr Blair strongly to this newspaper: his top-up fees for universities; and, of course, the Iraq war. On Iraq, Mr Blair discredited his own case by deceiving the public over how little he knew about Saddam Hussein's weapons programme. But we still think that to invade was the right thing given the uncertainty and given Saddam's record, and that progress in Iraq and the wider Middle East will show Mr Blair to have been not only courageous but also right.

That offers a clear reason to continue to back him. So, more tentatively, does the health-service reform he finally got under way in his second term. The authoritarian streak he has shown over civil liberties and the country's looming economic difficulties point the other way, especially with the even more meddling Mr Brown his likely successor. If the Conservatives, or indeed the Liberal Democrats, were offering an alternative government likely to combine superior fiscal management, fewer burdens on business, liberal policies on immigration and civil liberties, and a foreign policy geared toward further progress in the Middle East and a constructively critical approach to the European Union, *The Economist* would switch its endorsement.

But such an alternative does not exist. Tony Blair, for all his flaws, remains the best centre-right option there is.

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Letters

Apr 29th 2005
From Economist.com

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

The rule of law

SIR – You say that Andrés Manuel López Obrador, the mayor of Mexico City, used expropriated land to construct a road giving access to "a hospital to serve a poor area in the west of Mexico City" ("How not to defeat an awkward candidate", April 16th). This is incorrect. The hospital in question is perhaps the most expensive private hospital in Mexico. Moreover, Mr López's violation of the law, which caused him to lose his legal immunity from prosecution, is not a minor issue. "Ley de Amparo" is the legislation that protects citizens from abuse by the authorities. Not obeying a judge's resolution under this law would leave any citizen at the mercy of any official.

It is true that the application of the law in Mexico has been selective, to say the least, for the past century. But this is a legacy of the PRI's "perfect dictatorship" and should not serve as a justification to avoid applying the law to a tyrant in the making. The issue at stake here is the accountability of elected officials to their people—Mr López is accountable because he failed as an elected official to respect the law.

Ricardo Vila Freyer
Guanajuato, Mexico

SIR – Mexico's two establishment parties are being hypocritical (and causing instability) by allowing Mr López to be prosecuted on a technicality. Congress should end the authoritarian law that bars anyone facing charges, however minor, proven or not, from running for office. And, having broken the PRI's hegemony, President Vicente Fox would cement his own reputation with a pardon. Were there a similar law in Italy, Silvio Berlusconi, facing charges that dwarf those against Mr López, could not have stood for president in 2001. Mexican voters should be allowed to decide whether to be as forgiving as the Italians.

Joseph Palley
London

Farm subsidies

SIR – Andrew Mold suggests that support measures for farmers in some OECD countries, which are blamed for handicapping farmers in the developing world, is "OECD policy" (Letters, April 16th). This is not the case. They are the policies of the individual countries. The OECD has consistently argued against subsidies and other measures that distort trade, both in the farm sector and in other sectors. Where support for farmers is needed, the OECD recommends that it should take other forms that avoid trade-distorting effects.

Chris Brooks
Organisation for Economic Co-operation and Development
Paris

Turkey and Armenia

SIR – You presented Armenian accounts of the 1915 genocide but overlooked your own contemporary coverage of the slaughter ("Beginning to face up to a terrible past", April 9th). On October 9th 1915, *The*

Economist stated that “the Turkish government has been reviving the Armenian massacres” and cited 800,000 deaths within the previous five months. According to your report, “Lord Bryce fears that almost the whole of the Armenian nation in Turkey has been exterminated by a ‘premeditated and systematic policy of massacre'.” You deplored the crime as “an atrocity on a scale which even this war will hardly reproduce”.

Raphael Lemkin, who coined the word “genocide”, applied it to the Armenian experience and the consensus among Holocaust and genocide scholars confirms his view. Equivocation on this point serves only to legitimise Turkish government denial.

Lou Ann Matossian
Minneapolis, Minnesota

SIR – The key issue is Turkey's strong objection to comparisons with the Holocaust and the use of the word “genocide”. In reality, the situation in 1915 can best be compared to the regional ethnic cleansing and massed deportations that occurred during the course of the first world war. Hundreds of thousands of Armenian citizens of the Ottoman Empire continued to lead their lives unaffected by the events going on in eastern Anatolia. Today, there remains a sizeable Armenian community in Turkey. To compare 1915 to the Holocaust is a fraud and an insult to Jews.

Emre Kati
London

Choices facing Ukraine

SIR – If the Poles (and their delusions of superiority) truly took the lead in the European Union's support of Ukraine's “Orange revolution”, then that is not saying very much for the EU (“From Visegrad to Mitteleuropa”, April 16th). Victor Yushchenko is wisely sceptical of the EU (and especially of Poland, Hungary and Slovakia) and knows that Ukraine must build her alliances with Georgia, Moldova (which is really Ukraine) and Iran. Ukraine has been betrayed by the West before (especially in the aftermath of the first world war) and has finally learned her lesson.

Maria Hrycaiko Zaputovich
Toronto

Minority sport

SIR – No one expects residents of Washington, DC, to fill the stands of the capital's new baseball team, the Nationals (“Root, root, root for the Nationals”, April 9th). If fans do come, they will be from the Maryland and Virginia suburbs, and if other ethnically diverse cities like Chicago and New York are any guide, they will be overwhelmingly white. However, as Washington's city council made the highly unpopular decision to finance construction through a bond issue, the financiers of the stadium will be overwhelmingly black and will pay whether the Nationals stay or not. Black Washingtonians are doing their richer suburban neighbours and baseball quite a favour by taxing themselves to build a $581m stadium: how many majority-white cities of our size have spent that much on sports facilities without county or state support? Maybe Washingtonians would have more money to spend on baseball tickets if they didn't have to pay interest on the bonds.

James Walsh
Washington, DC

Bergdorf Goodman it ain't

SIR – If the public really is outraged by Wal-Mart operating in New York, then there is no need for all the political and legal manoeuvring (“Not in my aisle, buddy”, April 2nd). Let Wal-Mart build their “adjunct of China”. If the locals loathe the store they will neither shop nor work there, in which case it would close and there would be no impact on New Yorkers. If the opposite happens and a New York Wal-Mart is successful, what will Anthony Weiner say then?

Marc Horn
Valencia, Venezuela

Desperate housewives?

SIR – I do not recognise the women depicted by Amanda Vermeulen, who apparently “take glee” in some statistical findings that men are inferior to women (Letters, April 9th). Presumably, these women are embittered suburban housewives and, like men who take similar glee in research on women's inferiority, must be very stupid and unable to comprehend basic statistics. As William Blake observed: “To generalise is to be an idiot; to particularise is the alone distinction of merit.”

Jacqueline Castles
London

ONLINE ARTICLES

The following correspondence refers to articles published only online

Buttonwood on share buybacks

SIR - The benefits of increasing earnings per share and short-term share-price uplifts associated with a buyback should not be overstated ("A valuable alternative to empire-building", Economist.com, April 19th). While buybacks may increase per-share value of equity, the total number of shares in issue is lower so the total value of equity should be unaffected (notwithstanding the impact of lost interest income on the cash distributed).

The real benefits are from the positive signal the buyback sends. As well as signalling that the company views its own shares as potentially undervalued, it also demonstrates that management are not going to hoard investors' funds when those investors may be able to obtain a better return elsewhere.

Investors trust management teams that take care with their capital. The associated companies will receive greater demand for their stock, leading to better long-term returns and improved ability to raise capital when valuable investment opportunities do arise.

Michael Lion

MG Rover's demise

SIR - I agree that the decline of Rover has been somewhat overdone ("An instructive tempest in a teapot", Economist.com, April 12th). While a kind of quasi-patriotic mess has been made out of the firm, it shows more that Britain is a competitive country than that we are an economic failure. Rover was poorly managed, regardless of what the officials wish to say, and faced increasing competition from larger and better organised companies. While MG might have survived as a sports car (which Britain does have a niche for), attempting to keep a mass producer was a flawed idea (though possibly a vote-winner). Instead of moving the workers into either training or other jobs (service or manufacturing) when this mess started, we've had to wait until 2005. Hopefully things can now move towards a better resolution, without a government attempt to keep things going as they have been.

Nick Kerr

SIR - The (final) demise of MG Rover and your comments on the success of Honda, BMW and others leads me to ask why foreign manufacturers are able to succeed where British manufacturers are not. Why is Britain so attractive to foreign direct investment but not to its own investors?

Gerard Murphy

SIR - Buttonwood comments that there is "no need to panic" about the transfer from production to services. You should remember that the workforce consists of people, many of whom are getting nowhere trying to find a job or start a business in the services sector. Think for a moment if somebody told you that from now on you were not going to make a living by writing, but that instead you would have to find a manufacturing job because the global market has concluded that it is much cheaper to

outsource journalistic work to India. What would be Buttonwood's reaction? Calling for companies to be more socially responsible, in contact with communities? Rover sure was locally connected, though apparently not with the wider world of finance.

I resent that people like you see the inevitability of corporate evolution but do not seem to search for remedies for those people too busy with manual work to have a perspective on the future of their careers. But of course, few workers at Rover ever read your paper.

Pierre Simon

SIR - Like Studebaker, Hudson and AMC in the United States, MG Rover has accepted the adage that a successful company must either lead or follow; and when they fail, they must simply get out of the way.

Steve Becker

SIR - I have pondered the question of whether manufacturing matters for a while, and am not really too much closer to an answer. However, a couple of things strike me as being relevant.

Firstly, we have to ask ourselves whether we need "scientific" industries like pharmaceuticals and biotech, which are just modern manufacturing. Or should we get out of these too? Secondly, what happens when the universities close all the physics, mathematics, chemistry and electronics courses due to lack of employment prospects in the British marketplace? (Physics and chemistry are already as good as dead: is this a problem?) Does it matter that Britain is not capable of carrying out major engineering projects because there is not a single British company with the number of experienced personnel required to manage and run such a project (railways, for example)? In engineering and manufacturing, there is a critical mass required for survival, and when it is no longer there, you lose everything. You can't have a car-manufacturing sector without sub-contractors, for example, and once the big plants close the volumes don't make economic sense any more. Look at semiconductor and PC manufacture and development, for example.

Presumably this isn't a problem as we can all work selling insurance policies or dealing in bond futures or some such. But the result of losing manufacturing is surely a relatively non-numerate and scientifically illiterate population, which at a time of huge technological progress strikes me as something of a disadvantage. Furthermore, the only reason why services look so good is exactly because they are non-tradeables; once Bangalore gets its act together you will see the service-industry jobs disappearing along with the manufacturing jobs. And what then? The non-tradeability also leads to permanent and increasing current-account deficits. Surely this has implications for the currency and long-term consumption?

Something about the services-based economy doesn't ring true, but I don't quite know what.

Steven Jennings

SIR - The problems with British cars go back more than 40 years. It started with arrogance, and ended in ignorance of what vehicles the market wanted.

I bought my first car, a Triumph TR 3, in 1968. It was a lemon, especially the Lucas electric system. I sold it after three months at a great loss and promised myself never to buy a British car again.

It seems that the MG Rover management still has not learned from the past and so 6,000 families have to suffer. The famous word is marketing--that is, sell a car that the market wants at an acceptable price. Furthermore, a car is supposed to move people from A to B in a comfortable, reliable way. MG Rover vehicles do not.

Onno Frowein

American trade

SIR - I was shocked by the rubric of your article about China-bashing and trade ("Putting up the barricades", Economist.com, April 22nd). With numerous trade conflicts of late (softwood lumber with Canada, steel with Europe, etc), my suggestion would be that America has long since moved past the

point of "turning protectionist".

Ross Lennox

Pope Benedict XVI

SIR - I find it terribly frustrating that *The Economist* is perpetuating the complaint that Pope Benedict XVI will not "change" church doctrine—as if any mortal, Pope or not, had such authority ("In John Paul's footsteps", Economist.com, April 19th). Church doctrine is what it is; the Church is not running in a popularity contest and it is not a democracy. Laissez-faire is a perfectly appropriate philosophy for markets and democracies, but when it comes to faith, those of us who are proud Catholics understand that the truth about church doctrine comes not from our passing whims and fancies, but from God.

Lisa Wolski

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European Union enlargement

Now that we are all bundled inside, let's shut the door

Apr 28th 2005 | BRATISLAVA, BUDAPEST, PRAGUE AND RIGA
From The Economist print edition

A year after the new boys entered the European Union, the mood is a mite surly, and definitely unwelcoming

Get article background

GALEN, that great second-century physician, observed "*Triste est omne animal post coitum*". He might have been reflecting on the mood of the European Union a year after it embraced ten new members, eight of them from central Europe. Most of the newcomers affect a ho-hum indifference to membership now that they have it—even though they worked furiously to get it. The older members ponder, with varying degrees of anxiety, the low tax rates and the even lower wages which most of the new countries have brought with them into the single market.

The new members' singular lack of jubilation might suggest that this latest enlargement, the biggest by far in the Union's history, has been something of a let-down. "We have accepted the dictatorship of Tesco," grumbles Vladimir Zelezny, a Eurosceptic Czech member of the European Parliament.

Only the Slovaks still seem truly excited, perhaps because they came nearest to failing the course. After overthrowing communism, they had to beat back the neo-authoritarian government of Vladimir Meciar, which ran the country in the mid-1990s. "We would not have got rid of Meciar, were it not for the vision of the EU," says Pavol Demes, director of the Bratislava office of the German Marshall Fund of the United States.

In fact, last year's enlargement has gone remarkably well, both for the newcomers and for the Union, and all the more so when measured against the fears that preceded it. The institutions in Brussels have gone on working normally, despite predictions of gridlock. The economies of the new members have gone on growing at a healthy clip, roughly two to four times as fast as the euro-zone average, despite worries that their industry would be choked by regulations and their agriculture ruined by the opening of markets. More often, the opposite has happened, notably in Poland. Manufacturers have done unexpectedly well out of open borders and easier exporting. Farmers have gained from subsidies and new demand.

One problem is that the central Europeans feel themselves, in some respects, to be second-class members of the Union. This spoils their pleasure. They are stuck outside the Schengen zone of passport-free travel for at least another two years. They are denied the freedom to work in most EU countries for perhaps another six years: only Britain, Ireland and Sweden have opened their labour markets right away. The newcomers must meet further tests before they can join the single currency. Their farmers get smaller direct subsidies from EU funds, starting at one-quarter of the payments made to farmers in the 15 "old" members, a money-saving measure meant to speed farm restructuring.

Most painfully, after the ravages of communism and the post-communist transition, it will take the central Europeans decades before they can raise their average wages to western European levels. For most ordinary people, accession last year brought "euphoria on the eve of May 1st, a great historical moment—and then, the next day, nothing had changed," says Robert Braun, former chief strategy adviser to the Hungarian prime minister.

Still, given a few quiet years to bed down, this Union of 25 countries, due to be 27 with the entry of Romania and Bulgaria in 2007, could probably emerge little changed in its habits and workings from the Union of 15. Meetings in Brussels would be longer and wordier, relations with Russia would acquire a new salience, Britain would have a few more allies in its fight against tax harmonisation, and that would be pretty well all. Unfortunately, the quiet years needed for that bedding-down are not in prospect.

Instead, because European governments overestimated both the difficulties of enlargement and the strength of popular support for the EU, they committed themselves last year to the politically exhausting business of ratifying a new constitution. This document need not change much in the way the EU operates, save in some formal respects, but it does require each country to re-examine and re-confirm some fairly open-ended membership commitments in minute detail. No country is enjoying this process, least of all France, which holds its ratification referendum on May 29th, and has emerged as the unforeseen doubter. Opinion polls say the constitution is likely to be rejected there.

What happens if it's no?

The new members are looking on anxiously. If France votes no, its instinct might be to try forming a new small group of the EU's six original members, weakening and perhaps undermining the wider Union. If, on the other hand, France votes yes and then Britain votes no (as Britain probably will), that would be just as worrying, if it pushes Britain to the margins of the EU or out of it entirely.

The Union would become a much less friendly place for the new members, which tend to share Britain's taste for market liberalisation, tax competition, subsidiarity and Atlanticism, and look to it as a guarantor of those things. There is a faint possibility, too, that one of the new members, perhaps the Czech Republic or Poland, might fail to ratify the referendum, putting its own future in doubt. The Czech president, Vaclav Klaus, is the only EU head of state to oppose the constitution, while the Poles fume that the constitution will reduce their country's voting power within the Union.

French angst about Europe owes much to enlargement, and much also to worries about immigration and globalisation. Whereas France felt confident of its leading role in an EU of 15 countries, in an EU of 25 or more it is starting to feel unhappily overwhelmed. The idea that Turkey might one day join the Union weighs heavily on public opinion in France, as it does in Germany and Austria.

France fears not merely that it is losing its historic leadership of the Union, but also that enlargement is bringing in more low-wage, low-tax countries which will further undermine, through competition, the French model of big government and high taxes. It may well be right. Lithuania's tax burden in 2003 was 28.7% of GDP, 17 percentage points less than the French equivalent. Slovakia's 19% flat rate for all main taxes—personal, corporate and VAT—has become the envy of the region. But in the French view all this amounts to “fiscal dumping” by the new members—using low tax rates to lure jobs and investment away from western Europe, then balancing the state budget with EU cash from French and German pockets. The charge is wrong, but try telling France that.

The new members also tend to be much more Atlanticist in their foreign relations. In the run-up to the Iraq war in 2003 they mostly supported America, leading France's president, Jacques Chirac, to say that they had missed a good opportunity to shut up. The phrase still rankles.

“Now they know we are not going to keep quiet,” says Eduard Kukan, Slovakia's foreign minister, pointing to the part the new members have started to play in EU policymaking. Poland and Lithuania saved Europe's face by giving strong early support to Ukraine's orange revolution last year. Slovakia and Hungary have joined Austria to lobby, so far unsuccessfully, for accession talks with Croatia. The Czech Republic has been steering EU policy in relations with Cuba.

Romania looks set to outdo everyone in its pro-Americanism, if and when it joins the Union in two or three years' time. Its new president, Traian Basescu, elected in December, has said that his priority is to work closely with Washington and London, a formula which pointedly omits Paris and Brussels. Last week he said that Romania favoured “a state with minimal involvement in the economy”, a rebuke to France's *dirigiste* model. He added for good measure that he resented what Mr Chirac had said in 2003. “Romania is a country which has respect for itself,” he said, “we do not like these kinds of declarations.”

Mr Basescu may be living dangerously. His country has yet to join the EU, and France could still block its entry. Romania, and its neighbour, Bulgaria, began their negotiations alongside the central Europeans but were deemed unready to join last year. This week they signed accession treaties which will bring them in at the start of 2007, unless the EU sees signs of late disarray, in which case it can set back entry for another year.

But these accession treaties have to be ratified by all member states, including France. If relations deteriorate much further, the French parliament might decide that Romania is still unfit to join, and refuse the treaty. Germany's Christian Democrats are also talking about blocking Romania, and their support is needed for a constitutional majority in the Bundestag.

Keeping Turkey out

The question mark over Romania's accession is a small one. A much bigger one hangs over any further EU enlargements. Turkey has been accepted as a candidate, but few EU countries can easily conceive of it as a member, even ten years from now. The fear in some quarters of bringing an Islamic country into Europe is at least as great as the desire, in other quarters, to show it can be done. Turkey's size and relative poverty exacerbate the problem. The result is that the EU risks opening negotiations with Turkey later this year with no serious intention of completing them.

The countries of the western Balkans—Albania, Bosnia, Croatia, Macedonia, and Serbia and Montenegro—have all been promised in principle that they can join the Union once they are ready. But that promise, given in 2003, has no timetable attached to it, and most of the countries are still a mess. Indeed, until the final status of Kosovo is decided in talks due to start this year, and until the relationship between Serbia and Montenegro is decided by a referendum next year, it is not even clear how many countries the region will comprise.

Only Croatia is anywhere near ready to start entry negotiations, but its hopes of doing so last month faltered when the EU decided that it was not co-operating with the Hague war-crimes tribunal, a precondition for talks. The Europeans mainly want Croatia to surrender, or to inform on, Ante Gotovina, a fugitive Croat army chief who has been charged with ethnic cleansing during Croatia's war with the Serbs.

Ukraine is not recognised as a candidate for Union membership, but if its new pro-western government forges on with bold political and economic reforms, breaking with Russian and post-Soviet models, accession talks will be hard to resist. But there is a chicken-and-egg problem. Ukraine may be able to hold the course of reform only if it has a clear prospect of EU entry already in front of it, as was the case in Slovakia. Poland and most other central European countries think it is crystal clear that Ukraine should be offered a prospect of membership in order to stiffen its resolve. They want Moldova to follow, and some day even Belarus, if it can ditch its dictator of the past ten years, Alexander Lukashenka.

Losing the will to enlarge

But other EU countries disagree. They do not want to anger Russia, which sees these former Soviet lands as its sphere of influence. France nurtures Russia as a diplomatic ally. Germany relies on it for gas. Both want the Union to be nicer to Russia—unlike the new members, especially the Baltic states, who tend to view Russia as a nuisance if not an outright danger.

It is something of an irony, in sum, that while enlargement has become the most popular and successful instrument of regime change in Europe's history, the European Union is losing the will to enlarge any more. It does not really want any more members, save perhaps for Croatia, and only then because Croatia has such a beautiful coastline.

Of course, if truth were told, there was precious little popular support for last year's enlargement either. Like many other Union policies it was negotiated between governments and then implemented against a background of public indifference. A Eurobarometer opinion poll taken in 2002, just as EU governments were concluding terms for the 2004 enlargement, found that 41% of EU citizens did not want to know any more about the candidate countries, 76% did not wish to live or work in them, and 91% felt “no tie of any kind” with them.

History will surely judge the EU governments to have acted wisely, nonetheless, in pursuing the 2004 enlargement, and with it the rehabilitation of central Europe after half a century of communism. But some of those governments now find that they have frightened themselves, and many of their citizens, with the prospect of a wider and woollier Europe. Public opinion has been aroused. It worries about the shifting of factories and jobs to the low-wage economies of central Europe—*délocalisation*, as the French say.

In fact, the central European countries compete more often for projects against distant low-wage rivals such as China and Brazil, and all Europe benefits from central Europe's success. But still, some industrial capacity is shifting directly from the old to the new members. And some workers from central Europe are indeed entering western labour markets, often illicitly, since most EU governments have bowed to public opinion by closing their job markets to the newcomers. Such migration usually helps local economies, but it still upsets local interests.

Public opinion in western Europe also senses, accurately, that enlargement points the Union down a road which, if followed to its apparent conclusion, would mean open borders with the Balkans, wages in parts of Europe at Chinese levels, and Turkey as *primus inter pares* at EU summits. There may be much good to be said for each of these things, but public and even official opinion in many other EU countries is not yet ready to hear it. Anxieties about cultural integrity and national security are too strong.

Having been conceived as a way of exporting Europe's stability to neighbouring countries, enlargement is coming to be seen more as a way of importing instability. The emphasis throughout the West on national security since September 11th 2001 means that it is no longer clear even when the countries which joined the EU last year will be admitted to the Schengen zone of passport-free travel, if ever. They can join Schengen only with the unanimous approval of existing members, and that will not come if some interior ministers get their way, says one top EU official.

Whatever the outcome of the French referendum on the EU constitution, therefore, future enlargement is going to be much more difficult. Romania and Bulgaria should count themselves lucky if they get in under the wire, Croatia too. If the Union hangs together in its present form—by no means a certainty if France votes no next month—it may have to look for other ways to spread stability and prosperity to the mostly rackety countries round about. Already it offers nearby countries cash and technical aid, plus market access, in exchange for economic and political reforms based on European norms. But these exchanges are unlikely to produce the deep transformations which countries must attempt when they want to join the Union. They are regarded rather snootily by the recipient countries, which see themselves as being at

once excluded and appeased.

One answer might be a two-tier Europe in which new countries would be invited to join the Union, but only on the basis that they would be denied Schengen membership, free movement of labour, farm subsidies, and the right to vote on constitutional issues for a long transitional period or even permanently. This would answer the main public worries in western Europe. It would anger the countries waiting to join, just as the piecemeal postponement of some rights and privileges has angered the countries which joined last year. Even so, would-be members may have to swallow some such deal, if the alternative is no more enlargement.

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Energy policy

Rethinking the Axis of Oil

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Getty Images

Can America ever kick the oil habit? Not if Congress and George Bush have their way, but the ground is shifting

FOR six decades, one of the few fixed stars in American foreign policy has been the special relationship with Saudi Arabia. Bluntly put, America has offered military protection to the Saudi royal family in return for the free flow of relatively cheap oil from the desert kingdom. Every president since Franklin Roosevelt has stuck by this deal, and the Saudis have mostly done so as well. Within the OPEC oil cartel, the Saudis are usually the voice of moderation.

Alas, things seem to have gone wrong on George Bush's watch. Despite his family's famous closeness to the Saudi rulers, oil prices have shot past $50 a barrel, up from barely $10 in 1998. The price of gasoline, which Americans still expect to cost just a buck a gallon, now touches $3 in some places.

That explains why the mood was not so cheerful when Mr Bush met Crown Prince Abdullah, who in effect rules Saudi Arabia, in Texas this week. As petrol prices have gone up, Mr Bush's popularity ratings have declined. Uncharacteristically, before he met the prince, Mr Bush publicly pointed a finger of blame at the Saudis for the high prices. Much less publicly, the Saudis are still smarting from the “demonisation” of their country since the attacks of September 11th.

The two leaders tried to patch things up in Crawford. The Saudis promised to raise oil output sharply, pledging to spend $50 billion over the next five years to that end. Mr Bush cooed about the special relationship, and the two issued a communiqué pledging “to continue their co-operation, so that the oil supply from Saudi Arabia will be available and secure.”

So all's well with the Axis of Oil? Not quite. This is because the symbiotic relationship between the world's largest oil consumer and its largest producer is under attack from a surprising corner. Complaints from greens about cheap oil, Bushphobic wailings from the Michael Moore brigade and neo-conservative worries about Saudi terrorism are all well established. But the axis is now being challenged by an increasing number of pragmatists from the centre-right of American politics.

Several independent groups have strongly urged America to move away from oil. The Rocky Mountain

Institute, a think-tank concerned with energy efficiency, argues in a newish study partly funded by the Pentagon that America can end its oil imports with aggressive adoption of biofuels, radically more efficient cars and other related policies. The National Commission on Energy Policy (NCEP), a bipartisan panel of energy heavyweights, recently made the case for boosting domestic energy sources, and also advocates a clever “cap and trade” approach to tackling greenhouse gases.

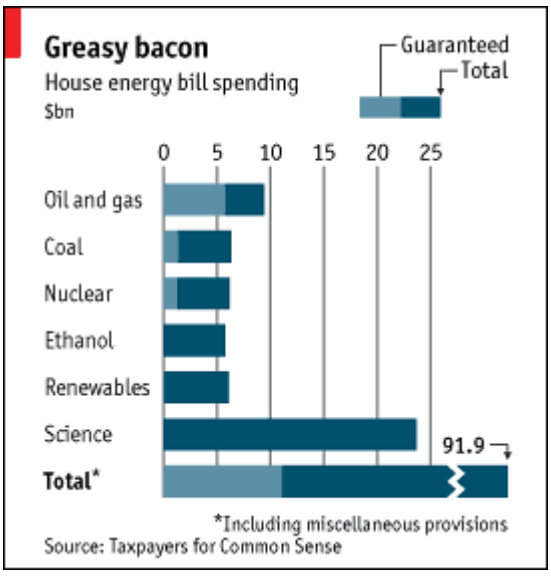
The most stinging attack came in a recent letter to Mr Bush signed by two dozen politically influential figures organised by the Energy Future Coalition, a lobbying group. These folk, an odd mix of national-security hawks and die-hard greens, argue that “dependence on imported petroleum poses a risk to our homeland security and economic well-being.” These worthies want to see “clean, domestic petroleum substitutes and increased efficiency in our transport system.”

One of the “geo-greens” (to use the moniker given them by Thomas Friedman of the *New York Times*) is Boyden Gray, an influential conservative who served as the White House counsel for Mr Bush's father. “I don't even like the word green!” he bristles. It is not greenery but post-September 11th fears that led men like him to join hands with the tree-huggers. In a thinly veiled reference to Saudi Arabia, he explains that he worries about “the corrupting influence of oil receipts that end up in terrorist hands”.

Robert McFarlane, who was Ronald Reagan's national security adviser, also signed the letter. He worries about the possibly devastating impact of terrorist attacks on oil infrastructure inside Saudi Arabia. He joined the greens because “we share a common interest in weaning ourselves off foreign oil.”

So is Congress rushing to embrace innovative ideas to kick the oil habit? Certainly not. In fact, the House of Representatives has just done the opposite by passing an energy bill stuffed full of subsidies for the oil-and-gas business. It includes giveaways for ethanol (a pretty ungreen petrol additive popular with corn farmers) and cheap catastrophic insurance for the nuclear industry. Meanwhile, it does nothing to close a loophole that allows sports-utility vehicles and Hummers to escape fuel-economy standards.

This bill is similar to last year's failed energy bill, which itself was based on the recommendations of the Cheney energy task force of 2001. But the House managed to add so much more pork—including a $2 billion giveaway to oil companies for deep-water research—to the bill that even the White House now criticises it as excessively costly. Taxpayers for Common Sense, a watchdog group, estimates that the full cost could be more than $90 billion (see chart). The bill now goes to the Senate.



Mr Bush's idea of reform may be a little more sophisticated than Congress's, but not much. His main priority is simply to get a bill through. He has asked Republican leaders for a final bill by August. On April 27th, he even offered the Senate some new sops to the oil-and-gas lobby in the name of “energy independence”. He wants to help buyers of cars with cleaner-burning diesel engines, utilities building nuclear plants and energy companies building refineries or “liquefied natural gas” facilities (all half-measures or worse).

Some geo-greens think the energy bill will fall apart. That would, in theory, allow the politicians to redraft a better bill—perhaps even one that included sensible provisions on auto-fuel efficiency, mandatory carbon curbs and so on. A few years ago, such reforms would have found scant support. Now they may

find unexpected allies. For instance, the farm lobby is getting gradually more eager to plant windmills instead of profitless crops. The energy behemoth may still largely be committed to cheap oil; but there are a growing number of small technology companies looking for alternatives who resent the giveaways to Old Oil.

James Woolsey, a former director of the CIA, envisions a geo-green coalition of “tree-huggers, do-gooders, sod busters and cheap hawks” pushing for energy independence. The oddest couple of all—Jerry Taylor of the libertarian Cato Institute and Dan Becker of the deeply verdant Sierra Club—have just issued a joint call for a radically different energy policy: a market-based, “zero subsidy” energy bill. If such coalitions really spring forth, then American energy policy, and the Axis of Oil, would be turned on its ear.

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George Bush's nuclear plans

Trouble in the nest

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By tinkering with its nukes, America has stirred up problems for itself

Get article background

WHEN the aim, as George Bush has explained repeatedly since the terrorist attacks of September 11th, is to keep the most dangerous weapons out of the hands of dangerous regimes and terrorist groups, a president's work is never done. So why make it harder for yourself?

Throughout Mr Bush's presidency his administration has tinkered with America's own nuclear arsenal. Whatever its motives, this policy has often provided comfort to countries like Iran and North Korea who would seek to evade the world's anti-nuclear rules. It is also running into opposition in Congress. The result could be yet another radical shift in the way America does its nuclear planning.

Next week, diplomats from some 190 countries will gather in New York for their month-long, five-yearly review of the Nuclear Non-Proliferation Treaty (NPT). America and others have sensible proposals that would address what administration officials call the treaty's “crisis of compliance” by tightening up rules that have been bent out of shape or broken by the likes of Iran and North Korea. But they will struggle to be heard over a clamour of criticism of America—and not just from the usual awkward squad.

Mr Bush's determination to explore new ideas for fancier nuclear weapons, and new ways to use them, has led to charges that he is undermining confidence in the NPT. Those forswearing the bomb did so, America will be reminded next week, on the understanding that the nuclear powers would reduce their reliance on such weapons too.

Mr Bush's officials have long claimed that their aim is merely to give the president more military options in a tight spot. His detractors say the president has always had a clear—suspect—nuclear agenda. The truth is somewhere between the two—but, because of that tinkering, it will be hard for Mr Bush to convince others of that.

In terms of nuclear treaties, Mr Bush offended many allies by refusing to support a comprehensive test-ban treaty (though he still observes a moratorium on testing, and thinks others should too). He scrapped the anti-ballistic missile treaty with Russia (though few regret its passing and he did persuade Vladimir Putin to sign the Moscow treaty, bringing parallel cuts to between 1,700-2,200 deployed warheads a-piece by 2012). And most recently, his officials have cast doubt on the value of negotiating a global treaty to end the production of fissile material for bombs, arguing that it would be virtually impossible to verify reliably.

Most Republicans in Congress, and some Democrats, have let all these treaty disputes pass. But when it comes to the president's plans for America's own nuclear weapons, congressmen from both parties have dug their heels in. Their opposition may force a rethink in how America maintains its nuclear edge.

Last year the House tossed out most of Mr Bush's budget for studying (though not yet developing or building) new sorts of nuclear weapons, and cut entirely the funding for what is called a “robust nuclear earth penetrator”. This was an effort to see if existing nuclear warheads could be adapted to penetrate below ground, in order to vaporise deeply buried targets, such as enemy stocks of chemical and biological weapons.

Congressmen were unimpressed to discover that the best burrowing warheads would still throw up lots of radioactive fall-out. In the light of the failure to find weapons of mass destruction in Iraq, they also worried that pinpointing targets reliably would be near-impossible. But mostly they worried that exploring

more usable nuclear weapons would encourage others to follow suit—and maybe even to use them. That would hand America's enemies an excuse to go for the great equaliser to its overwhelming conventional military power.

Surprised and chastened by this hostile response—the studies were “just studies”, says one administration official plaintively—the Department of Energy is now hoping to win approval for another year's work on adapting the casing of one existing warhead (known to nuclear bean-counters as the B83) for such deep burrowing, rather than the two it first thought of. But Congress has sat hard on work by the nuclear weapons laboratories on broader “new concepts” for weapons design.

The weaponeers have been told instead to explore what is being called a “reliable replacement warhead”. Pushed particularly by a Republican congressman, David Hobson, the idea was to switch the effort from inventing fancy new bombs, to making those already in the stockpile less sensitive to ageing (the average age of America's nuclear warheads is now 20 years) and easier to certify as safe and reliable—all without the need for testing.

The Energy Department has embraced the reliable warhead idea. Starting initially with one warhead from the existing arsenal, the plan is to look at ways of manufacturing sturdier replacement parts. If all goes well, over the next five to ten years officials expect to be able to produce a small number of warheads to show that the manufacturing techniques work. If they do, then America could save on weapons maintenance and also cut back sharply the number of weapons it keeps on hand as a “hedge” against something going wrong with those it has deployed on its missiles, planes and submarines.

A testing question

All sides agree that America cannot simply do nothing while its weapons moulder away. But some in Congress still smell a rat. Administration officials have been troublingly vague in public about whether they will be replacing just a few warhead parts or doing a more ambitious re-engineering job. That has led to charges that Mr Bush's team is trying to resurrect work on a new generation of fancy nuclear weapons under a different guise. It does not help that nobody has yet categorically ruled out further testing.

Administration officials insist that the aim of the programme is suitably modest, but that until the work is further along they cannot know for sure how much of each warhead under study will need replacing. Mr Bush has been pressing for America's main test site to be ready to restart testing, if needed, at 18 months' notice. Yet short of a catastrophic failure in the design of one of America's remaining weapons, politically it would probably be impossible to start weapons-testing again—though no serving administration official would be caught admitting that.

The irony is that, despite all that tinkering, Mr Bush may in practice end up looking like something of a model citizen. America is on course to cut its total stockpile by half by 2012, with the number of deployed warheads down by two-thirds from today's levels. And it is unlikely to do any further nuclear testing. Not a bad record. But the world may not trust him on nukes just yet.

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San Diego in free fall

Whatever next?

Apr 28th 2005 | SAN DIEGO
From The Economist print edition

The mayor, the pension crisis, the strip club and the surfer chick

AP

Time to go

WAS it the power of the press, a matter of principle or sheer emotional fatigue? On April 25th San Diego's Dick Murphy, named a week earlier by *Time* magazine as one of America's three worst mayors (the others were from Detroit and Philadelphia), shocked friend and foe alike by announcing he would resign on July 15th. “It is clear,” said the mild-mannered Mr Murphy, “the city needs a fresh start.”

San Diego, once arguably America's best-run big city, is now better known for its collapsing credit ratings and talk of bankruptcy. Thanks largely to council decisions in 1996 and 2002 to raise pension benefits but not pension contributions, the city now has an unfunded pension liability of around $1.37 billion (a 38% shortfall), plus a shortfall of around $550m for the retirees' medical benefits.

Investigations by the FBI, the Justice Department and the Securities and Exchange Commission into how this happened are underway. Meanwhile, Mr Murphy's deputy, Michael Zucchet, who is due to take over on July 15th, is about to stand trial on charges of accepting campaign contributions from the owner of a strip club.

Then there is the continuing fuss about Mr Murphy's narrow re-election last November. The Republican former judge faced a tough challenge from Donna Frye, a one-time “surfer chick” who had become a Democrat councilwoman (and who had opposed the council's 2002 pension vote). By her own count, Mrs Frye's “write-in” candidacy received the support of more than 155,000 voters. Unfortunately, 5,551 of her voters neglected to fill in the oval box next to her name on the ballot paper. This allowed Mr Murphy to sneak home by 2,108 votes.

Mrs Frye's supporters are still challenging that result in the courts. Now she has a second chance. Mr Murphy has chosen July 15th as his departure date for two reasons: to finish work on the forthcoming budget (which, of necessity, will attempt to reduce the pension deficit) and to allow the city council time to prepare a special mayoral election in November to coincide with the state-wide special election that Governor Arnold Schwarzenegger has said he may call.

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About sponsorship

The immigration debate

A slip of the tongue, governor?

Apr 28th 2005 | LOS ANGELES
From The Economist print edition

A familiar divisive subject returns to Californian politics

Get article background

“CLOSE the borders in California and all across Mexico and in the United States. Because I think it is just unfair to have all those people coming across, have the borders open the way it is, and have this kind of lax situation.” So much for the impromptu opinion of Arnold Schwarzenegger, speaking to a San Francisco meeting last week of newspaper bosses. Within minutes his press secretary was issuing a “clarification”, and the next day the governor apologised: “Yesterday was a total screw-up in the words I used. Because instead of ‘closing', I meant ‘securing'. I think maybe my English, I need to go back to school and study a little bit.”

Or maybe not. The governor may have committed a linguistic gaffe in a state where 12m residents (a third of the total) are Latino and where the Republican Party has been trying to drop the “anti-immigrant” reputation it earned in 1994 by backing Proposition 187 (which limited benefits for illegal residents). But did he really drop a political clanger?

This week Roger Hedgecock, a conservative talk-radio host from San Diego (where he was once mayor), was in Washington, DC, with more than 200 supporters to press the politicians to “fix the border”. So, too, was Chris Simcox, the organiser of the “Minuteman project” in which several hundred civilians stationed themselves in the Arizona desert to deter would-be illegal immigrants.

Meanwhile, Latino gang violence in California, especially by the Mara Salvatrucha 13 gang, is eroding support for local police ordinances—such as Special Order 40 in Los Angeles—under which police officers, anxious not to deter witnesses, do not question a person's immigration status. Los Angeles's police chief, William Bratton, has recently called for a reinterpretation of the policy, in the hope of deporting some 30,000 convicted felons illegally resident in the LA area.

In other words, the mis-speaking gubernator was in tune with his Republican base—and probably with quite a few independents and Democrats, too. One sign was the decision by Dianne Feinstein, California's senior Democratic senator, to join a successful filibuster against the so-called AgJobs bill.

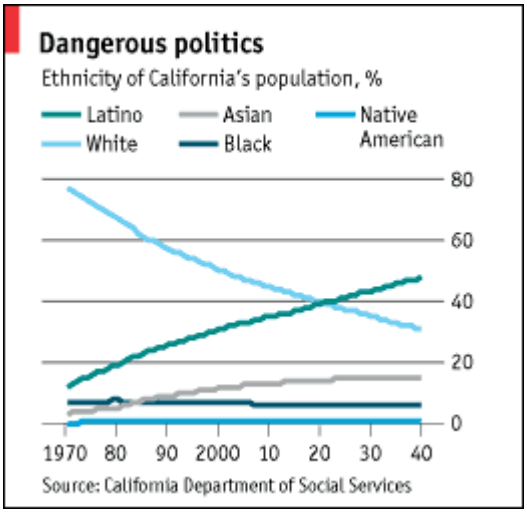
The bipartisan bill, one of whose sponsors was Ted Kennedy, aims to give illegal farmworkers temporary legal residence if they worked in farming for at least 100 days in the 18 months before December 31st 2004; if they then work in agriculture for an additional 360 days over the next three to six years they will qualify for permanent residence—and potentially American citizenship.

Mrs Feinstein, one of five Democrats joining 40 Republicans in the filibuster, argued that such a law would simply act as “a huge magnet”, drawing still more poor Mexicans to join the 600,000 she reckons are working illegally on California's farms. Her preference would be to reduce the magnetic power by extending the time needed to qualify for residence.

That smacks of having it both ways. Could the same be said of California's other Democratic senator, the liberal Barbara Boxer? Not on the face of it: Mrs Boxer is a strong supporter of the AgJobs bill. Such a strong supporter, in fact, that she helped block an alternative proposal by two Republicans, Saxby Chambliss of Georgia and Jon Kyl of Arizona. This would give

illegal farmworkers temporary legal status for three years, renewable for up to six more, but would not be a path to permanent residence. Better than nothing, one might think, but Mrs Boxer says the Chambliss-Kyl plan would “undercut” the AgJobs bill and “would have taken immigration reform in the opposite direction”.

Immigration reform, despite George Bush's call for a “guestworker” programme, looks as politically difficult as ever. Meanwhile, the illegals keep on coming. For many Californians, not all of them white, Mr Simcox's boast that his Minutemen have deterred migrants from taking their chances in the Arizona desert suggests a model worth following. The Border Patrol reckons more migrants than ever are trying to cross into California. Mr Schwarzenegger's tongue may have slipped; but his political radar remains intact.



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Southern politics

Your woman or your rooster?

Apr 28th 2005 | COLUMBIA
From The Economist print edition

A hard choice, it seems, for some South Carolina politicians

SOUTH CAROLINA is a rather traditional, male-minded place, with a particularly ornery legislature, but even some conservatives are a mite embarrassed by the odd double chalked up by the state's House Judiciary Committee last week. First, its members stopped a bill that would have increased the penalties for wife-battering; then they took the time to approve one protecting gamecocks, by making cock-fighting a felony.

This unfortunate juxtaposition has infuriated feminists (and many other people too). The rooster may be the mascot of the University of South Carolina's sports teams; but the state regularly finishes very high (sometimes even top) in rankings of the number of women killed by abusive partners. Women have held demonstrations and barraged lawmakers with furious e-mails and telephone calls.

Given such pressures, the chastened politicians have rushed to reintroduce a revised domestic-violence bill, hoping to get it through by the end of the session on June 2nd. The Republican House Speaker, David Wilkins, who, rumour has it, may be George Bush's next ambassador to Canada, released an appropriately diplomatic statement assuring the women of South Carolina that both issues—their safety and the protection of gamecocks—were being taken very seriously.

Not very bright, really

Unfortunately for Mr Wilkins, others in his party have been less apologetic—notably John Graham Altman, an assemblyman from Charleston who was instrumental in squashing the original domestic-violence bill. First, he declared that the bill was not needed because a battered woman should never go back home to be hit again. Then, when asked by a female television interviewer whether politicians thought that a gamecock's life was worth more than a woman's, he replied: “You're not very bright, and you'll just have to live with that.” Despite the ensuing uproar, Mr Altman has refused to apologise to her.

This is not the first time that the crusty 70-year-old lawyer has been in trouble. In 1997, when he was trying to keep the Confederate flag flying over the State House, he told black legislators to “quit looking at the symbols. Get out and get a job. Quit shooting each other. Quit having illegitimate babies.” Other recent highlights in a long career include describing Martin Luther King as “an enthusiastic, serial adulterer”, condemning a hate-crimes bill for making “white heterosexuals second-class citizens”, and proposing a “Choose Death” licence plate for pro-choice drivers.

The Republicans say their new revised bill would make domestic violence a felony on the third offence; which is slightly better than the current system in South Carolina where it is only a misdemeanour, unless it is “of a high and aggravated nature”. Women's groups have promised to follow the legislature's progress carefully; one posse is organising a protest outside Mr Altman's home.

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Chicago's organised crime

The 1.3% solution

Apr 28th 2005 | CHICAGO
From The Economist print edition

Well, they've been arrested, but will they be convicted?

GUMBA turned up fat and dead in a motel room. The Clown and the German gave agents the slip. Nevertheless, federal prosecutors this week succeeded in tightening the screws on Chicago's organised crime. A dozen mob figures (including the alleged ringleader of the local outfit) and two former police officers were charged with 18 murders, illegal gambling and loan sharking; their alleged crimes spread over more than three decades.

Will the case be a turning point for crime-fighters in the city that Al Capone made famous in the 1920s? Prosecutors say it is one of the most sweeping indictments ever against the Chicago mob. With co-operation expected from two insiders already in custody, the trial could be sizzling. But only 14 of 1,111 gangland killings in the area since 1919 have resulted in convictions. This less than impressive 1.3% success rate is put down to the mob's violent and remarkably effective way of silencing witnesses. The FBI reckons that the four organised “street crews” still operating in the area have more than 100 members and associates.

The ageing mob-bosses arrested this week were a pretty sorry-looking lot. Crime, it seems, is a stressful business: a couple of the accused told a federal judge that they had to take pills for high blood pressure and arthritis. James Marcello, the reputed big boss, has sinus allergies. Another suspect, a former police officer, came to court in a wheelchair and takes nine pills a day.

Two of the wanted men—Joey “the Clown” Lombardo and Frank “the German” Schweihs—are still on the lam. But the mobster who stole the show was Frank “Gumba” Saladino. The hitman, who always dressed in black and reportedly weighed 400lb (180kg), was found dead by the agents sent to arrest him at the suburban motel he called home.

Toxicology tests may determine the cause of Gumba's demise. But the timing, just hours before the agents arrived, brings to mind the demise of Nick “the Stick” LoCoco, a bookie who suffered a fatal fall from his horse shortly after being charged in a corruption probe.

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Lexington

The doctor's new right wing

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From The Economist print edition

Bill Frist is not content with being majority leader of the Senate. Alas

AMERICANS are accustomed to dramatic makeovers. They regularly watch plastic surgeons, real or imaginary, demonstrate their skills on “Extreme Makeover” and “Nip/Tuck”. They get to gawk at Michael Jackson on a daily basis. But even in a country where personal reconstruction is routine the transformation of Senator Bill Frist is attracting attention.

Two years ago, when he was elected majority leader, Mr Frist was widely heralded as the face of the New Republican Party. Out went nasty old Trent Lott with his racist faux pas. In came nice Fristy (as George Bush calls him) with his moderate politics and telegenic smile. The doctor came from the safe patrician-cum-business wing of the Republican Party: his family, one of the poshest in Tennessee, founded HCA, a huge private-hospital chain. He was also the living embodiment of compassionate conservatism: a heart-and-lung surgeon who performed 150 transplants during his career and who continues to exercise his skills, even nipping off to Africa during his holidays to do some charitable operations.

Mr Frist seemed to take a moderate tack in the culture wars. In his 1989 book “Transplant” (part memoir, part *cri de coeur* about organ transplants) he was resolutely scientific rather than theological on the question of when life begins and ends. He even recommended changing the legal definition of “brain death” to make it easier to harvest the organs of anencephalic babies (who are born with a fatal neurological disorder but show signs of mental activity). Social conservatives fiercely resisted his elevation to the Senate leadership.

But look at him now. One moment Fristy is leading the congressional charge into the Terri Schiavo case, masterminding a bill to give federal courts jurisdiction over the case, and “diagnosing” Ms Schiavo as being conscious on the basis of watching a video and talking to a neurologist who had not seen her for two years. The next he is threatening “the nuclear option”—changing the Senate's rules to stop Democrats filibustering judicial nominees. On April 24th he was a speaker—albeit by videotape—at a Christian rally at which the “oligarchs” of the Supreme Court were denounced as “unelected and unaccountable, arrogant and imperious, determined to redesign the culture according to their own biases and values.”

Why has Mr Frist thrown in his lot with the religious right? It is possible that he has enjoyed a private

conversion. But the more likely explanation is that an intensely ambitious man desperately wants to be president. At his young gentleman's academy in Nashville, his nicknames were “Mr President”, “Precious” and “Wilbur”; at Princeton, Harvard Medical School and the Stanford University Medical Centre, he was a super-achiever, so keen on practising surgery that he even adopted stray cats from Boston shelters for the sole purpose of dissecting them. And now he is in the Senate—a club whose inhabitants think about becoming president as often as normal humans think about sex.

Mr Frist seems to have made two calculations. The first is that you cannot win the Republican nomination unless you have “people of faith” on your side. The second is that such people are very angry. They thought that the 2004 election, with its clean sweep of the White House, the House of Representatives and the Senate, would allow them to roll back secular liberalism. But they find themselves blocked on every front: by a liberal press that is intent on destroying their champions, such as (Saint) Tom DeLay; by the Democratic minority, which is using every trick in the book to block their agenda; and by an activist judiciary, which seems impervious to the will of the people.

Both these calculations are absolutely right, but they are hardly risk-free—as the filibuster debate shows. Mr Frist's natural constituency—business conservatives—already worry that the filibuster fuss will distract attention from things like trade liberalisation and litigation reform. The stakes will soon get higher. If Mr Frist's nuclear strategy fails, he risks disappointing the religious right, emboldening the Democrats and trashing his reputation as an efficient majority leader. If he succeeds, he risks throwing the Senate into turmoil, alienating moderate voters, and stoking up the appetite of the religious right to move on to something else (like overturning *Roe v Wade*).

Hoping you are George Bush, fearing you are Al Gore

And what prize lies at the end of this? Assume that a miracle happens and Mr Frist succeeds both in ditching the filibuster and holding his party together. Will he really be much more than a long-shot to win the Republican nomination? A recent poll on the subject puts Rudy Giuliani in first position with 25% of voters and Mr Frist well down the list with just 3%.

Mr Frist's problem is not just with his politics (which are clearly malleable). It is with his personality (which is less so). In his move rightwards, the good doctor has tried to ape the younger George Bush; too often, however, he has seemed more like Al Gore. Like that other patrician Tennessean, Mr Frist feels a constant need to prove himself. “With the family emphasis on self-worth,” he once wrote, “I longed to be first in everything, to be king of the hill, the grammar school *capo di capo.*” Like Mr Gore, he is a robotic speaker; and like Mr Gore, he has discovered radical ideology rather late in life, giving the distinct sense that he is trying to prove too much.

Mr Frist is clearly an extraordinarily talented man. If he could rein in his ambition, he might yet become a great leader of the Senate. But his longing to be “king of the hill” and “first in everything” could be his undoing. It is not only forcing him through an embarrassing ideological makeover. It is also conjuring up a high-stakes political battle that may end up harming himself and the Republican Party, and the country too.

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Award: Kal

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From The Economist print edition

OUR Lexington cartoonist, Kevin Kallaugher, has won this year's Thomas Nast award given by the Overseas Press Club of America. He also recently won the 2004 political cartoon of the year, given by the British Political Cartoon Society

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Colombia's right-wing paramilitaries

Politics, drugs and the gun

Apr 28th 2005 | BOGOTÁ
From The Economist print edition

AFP

Whether or not peace talks collapse, right-wing paramilitaries, such as those pictured above, now have political as well as military power

Get article background

IN MARCH, Iván Roberto Duque, a chieftain of Colombia's right-wing paramilitary vigilantes, accused Óscar Trujillo, the mayor of the small town of Aguadas, of killing a congressman. Mr Trujillo promptly fled to an army base—with some reason. Facing death threats, the congressman had sought the protection of the fearsome Mr Duque, whose *nom de guerre* is Ernesto Báez. "I myself would carry out justice, but we are in a peace process," Mr Báez thundered, seeming livid that his authority had been challenged. That does not often happen in Caldas, a coffee-growing department where Mr Báez heads the local paramilitary army.

The mayor's plight underlines just how powerful the United Self-Defence Forces of Colombia (AUC), as the paramilitaries call themselves, have become as both a military and political force. Since 2003, the AUC has been talking peace with President Álvaro Uribe's government. Some 4,000 paramilitary troops have demobilised as a result. Yet far from being defeated, all the signs are that the AUC is stronger than ever. That is worrying, since the AUC is deeply involved in drug-trafficking and kills more civilians than its foes, the left-wing guerrillas of the Revolutionary Armed Forces of Colombia (FARC).

The AUC's origins lie in vigilante groups set up by landowners for protection against the guerrillas. Two decades ago, drug-traffickers began buying land and transformed the vigilantes into private armies. Some military officers—but not the army as an institution—collude with the paramilitaries.

The AUC'S involvement in the drug trade is a sticking point in the peace talks. Mr Báez, who has emerged as the organisation's senior figure, has threatened to break off the talks if the amnesty bill does not prohibit the extradition of paramilitary leaders facing drug charges in the United States. Another disagreement concerns treatment of past crimes. A bill wending its way through Congress would prescribe up to eight years of confinement for those guilty of crimes against humanity. Critics say the bill would not, in practice, dismantle the criminal networks.

The paramilitaries are too strong to be forced to accept a settlement they dislike. Alfredo Rangel, a

security analyst, reckons the AUC still has more than 10,000 troops, plus civilian helpers. It operates in a third of Colombia's municipalities. Despite a supposed ceasefire, some AUC leaders continue to recruit. Drug money allows them to pay unemployed youths up to 500,000 pesos ($210) a month.

More novel is the AUC's growing political power. This is hard to quantify. But last year Salvatore Mancuso, a now-demobilised AUC military chief, claimed to control 30% of the Congress. In several regions, AUC chiefs pick candidates for mayor, town council and governor. They decide who will get municipal contracts.

The AUC's influence is especially pervasive along the drug-exporting Caribbean coast. In Magdalena and César, suspiciously, only one candidate stood for governor at last year's local elections. “We control most of the north coast, the Magdalena Medio in the centre of the country, and in the south, Nariño and Putumayo,” brags “Jorge 40”, a warlord who commands the AUC's northern block. The mayors of two departmental capitals, Cúcuta and Riohacha, were arrested last year for alleged ties to paramilitaries. The chief prosecutor in Cúcuta is on the run, after claims that she was an AUC collaborator.

As for the organisation's political agenda, it is straightforward: security for Colombians and amnesty for itself. Mr Mancuso told *Semana*, a news magazine, that he aspired to political office and that political rights were a greater concern to the AUC than avoiding punishment. Earlier this month, Congress amended the amnesty bill to deny the paramilitaries the right to stand for office. Mr Uribe is trying to change that. But many normally pro-government congressmen fear opening the door for drug-traffickers to enter politics, as they have often attempted.

Many of the AUC's tactics mirror those of their foes, the FARC. The left-wing guerrillas expanded during failed peace talks under Mr Uribe's predecessor. Those talks collapsed because the guerrillas never declared a ceasefire or agreed to demobilise. The AUC has been smarter. Although it has frequently violated its ceasefire, Mr Uribe has turned a blind eye, while unleashing the army against the FARC.

Colombia faces a difficult choice. In the past, the politicians would have settled for peace, allowing the gunmen into politics even if that meant pardoning horrific crimes. Now, many Colombians—and international human-rights groups—resist that. Already, the paramilitary chieftains are gaining political power without, in practice, renouncing violence. An election next year could see their influence in Congress grow further.

What is the alternative? Despite increased defence spending and American military aid, Colombia's security forces remain thinly stretched. After a quiet period, the FARC has returned to the offensive this year. The army took more than a week to relieve a recent guerrilla siege of Toribio, a small town in Cauca. If Colombians want to impose the rule of law across their country's vast territory, they will have to pay more taxes to strengthen the security forces and other state institutions. Otherwise, democratic politicians will be outspent and outgunned by drug traffickers, paramilitaries and guerrillas.

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Belize

Incommunicado

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Why they pulled the plug on a misgoverned country

FOR much of the past fortnight, Belize, a small English-speaking country in Central America, was technophobe heaven. Phones, internet and cash machines stopped working for days and power was briefly cut after staff at BTL, the telephone company, were locked out. The prime minister, Said Musa, blamed saboteurs. The trade unions blamed Mr Musa, and told him to resign. As looters smashed shops in Belize City, a man was killed, 27 were injured and 100 arrested. The teachers' and civil-service unions called strikes. Fortunately for Mr Musa, most of their members preferred not to miss payday.

Phones were more or less working again this week. But the respite may be brief. Belize is struggling with a public debt as big as its GDP. Much of it falls due this year. The country's credit rating has plunged, so new borrowing is onerous. After earlier strikes, the government backtracked on austerity measures. Most Belizeans are not keen to make sacrifices; they believe that Mr Musa has landed the country in its present mess. An inquiry into the Social Security Board heard of public money lent unwisely to well-connected businessmen.

The biggest problem is the phone company. Lord Ashcroft, an Anglo-Belizean who was once treasurer of Britain's Conservative Party, owned a majority of its shares until 2003. After sniping over regulation, the government bought him out. It hoped to sell his shares to Innovative Communication, a company based in the US Virgin Islands. The two are now in dispute. This month, a Miami judge slapped a $50,000 a day contempt judgment on Belize—big money for a country whose government's total revenue is less than $800,000 a day. Perhaps Mr Musa might prefer it if his people cannot talk to each other.

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Condoleezza Rice in Latin America

Trouble in the “backyard”

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Just stop calling it that

AFP

Rice and Lula: wary allies

AFTER four years in which South Americans complained of neglect by the United States, George Bush is paying attention. He sent his defence secretary, Donald Rumsfeld, to the region in March. Condoleezza Rice, the new secretary of state, set off on a four-nation tour this week. Mr Bush himself is expected in Argentina and Brazil in November. Why the sudden interest? Because things are going badly.

The United States' long-standing project for the region, free trade among the hemisphere's 34 democracies, is stuck. Mr Bush's newer idea of spreading democracy everywhere could suffer reversals in South America. Last week Ecuador's Congress ousted its pro-American president. Democracy in Bolivia and Peru is fragile.

As America's influence in South America has waned, China's has waxed. The noisiest problem for Mr Bush is Venezuela, led by an implacably anti-American populist, Hugo Chávez. He is thought to be fomenting unrest in other Andean countries, and this week scrapped a longstanding military co-operation accord between Venezuela and the United States. The Bush administration has so far failed to persuade fellow members of the Organisation of American States to back its candidate to be the group's secretary-general.

Michael Shifter, an analyst with Inter-American Dialogue, a think tank in Washington, DC, says that the United States needs to abandon its traditional attitude that Latin America is merely its “backyard”. Ms Rice, who has recently carried emollient messages to several continents, seems to understand this. Her tour takes in two reliable allies, Colombia and El Salvador. But much of the business that matters is with pricklier countries. She was to attend a pro-democracy jamboree in Chile. She started her tour in Brazil, the region's main power, which the United States hopes will be a bulwark against instability.

Brazil is wary of pan-American free trade, bitter about American farm subsidies and suspicious of American military aid to Colombia. It is too big and ambitious in its own right to accept American leadership. For their part, the Americans deem Brazil's president, Luiz Inácio Lula da Silva, a tad too friendly to Mr Chávez.

In Brasília, however, Ms Rice played down differences. A joint statement spoke the local language of “liberty, democracy and social justice”, though the secretary mentioned drugs, terrorism and trade in a later speech. The statement called on Ecuador to respect “democratic order”, though neither country may do much to ensure this. Brazil leads the United Nations' peacekeepers in Haiti and probably restrains Mr Chávez. If other Andean governments fall into anti-American hands, its moderating influence will be sorely needed.

The best hope for stability in South America is to make it richer. The United States alone cannot make that happen, but could do more to help.

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Argentina's economy

Overdosed

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A surge in inflation brings policy headaches

WHEN Shell announced this month that it would lower its petrol prices in Argentina by 3.3%, the country's president, Néstor Kirchner, promptly declared “a clear victory for the Argentine people”. It was certainly a political victory for the president. He had called for a boycott of the Anglo-Dutch oil company after it raised prices in March. But it was cold comfort for Argentines, who are suffering the return of a bugbear they thought they had shaken off.

Consumer prices leapt by more than 4% in the first quarter of 2005—an annualised rate of over 17% (see chart). Apart from a spike after the peso's traumatic devaluation in 2002, that would be the highest annual rate since 1992. Many local economists place the blame squarely at Mr Kirchner's door.

In a successful effort to resuscitate the economy after the collapse of 2002, the central bank pumped in money. It printed pesos to buy dollars, thus also boosting exports and import-competing local businesses by keeping the exchange rate undervalued. Conveniently, this allowed the government to impose export taxes to boost its revenues. These policies, together with non-payment of debt, engineered an impressive recovery: output is now almost back to its pre-collapse peak of 1998.

But the authorities carried on boosting demand for too long. In the three months to December, the monetary base rose from 47.5 billion pesos ($16 billion) to 52.5 billion pesos. The government joined in too: “discretionary” federal spending rose by 19% last year, while the government decreed wage increases for the private sector. But the “output gap”—resources left idle by the collapse—is closing. Investment is growing, but from next to nothing. The inevitable result of more money chasing not many more goods has been price rises.

Argentines have painful memories of inflation. As real wages dip, some labour unions have already demanded further rises. Inflation is the one issue that could compromise the otherwise rosy chances of Mr Kirchner's allies in a congressional election in October.

The central bank has begun to tighten the reins. It is buying back pesos, buying fewer dollars, and has raised interest rates. Many economists reckon these measures will curb inflation to 11% or so this year—but at the cost of slowing growth. The answer might be to allow the peso to appreciate faster. That would

increase pressure on the government to cut export taxes. But with possible energy shortages in the southern-hemisphere winter likely to put further strain on prices, the government may have little choice.

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Canada

Where have the salmon gone?

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From The Economist print edition

Another fishery heads for the rocks

Get article background

Socked to them

EVERY spring migrating salmon return to British Columbia's rivers to spawn. And every spring new reports detail fresh disasters that befall them. This year is no different. The fisheries committee of Canada's House of Commons and a former chief justice of British Columbia, Bryan Williams, have just examined separately why 1.3m sockeye salmon mysteriously “disappeared” from the famed Fraser river fishery in 2004. Their conclusions point to a politically explosive conflict between the survival of salmon and the rights of First Nations, as Canadians call Indians.

In 2004, only about 524,000 salmon are thought to have returned to the spawning grounds, barely more than a quarter the number who made it four years earlier. High water temperatures may have killed many. The House of Commons also lambasted the federal Department of Fisheries and Oceans (DFO) for poor scientific data, and for failing to enforce catch levels. Four similar reports since 1992 have called for the department's reform. In vain: its senior officials are “in denial” about its failings, said the committee.

Mr Williams' report added a more shocking twist. He concluded that illegal fishing on the Fraser river is “rampant and out of control”, with “no-go” zones where fisheries officers are told not to confront Indian poachers for fear of violence. The judge complained that the DFO withheld a report by one of its investigators which detailed extensive poaching and sale of salmon by members of the Cheam First Nation, some of whom were armed.

Some First Nations claim an unrestricted right to fish and sell their catch. Canada's constitution acknowledges the aboriginal right to fish for food and for social and ceremonial needs, but not a general commercial right. On the Fraser, however, the DFO has granted Indians a special commercial fishery. To some Indians, even that is not enough.

Both reports called for more funds for the DFO, to improve data collection and enforcement. They also recommended returning to a single legal regime for commercial fishing applying to all Canadians.

On April 14th, Geoff Regan, the federal fisheries minister, responded to two previous reports from a year ago. One, from a First Nations group, suggested giving natives a rising share of the catch. The other proposed a new quota system for fishing licences, and the conclusion of long-standing talks on treaties, including fishing rights, with First Nations. Mr Regan said his department would spend this year consulting “stakeholders” (natives, commercial and sport fishermen). It will also launch pilot projects aimed at improving conservation, enforcement and First Nations' access to fisheries.

To some in British Columbia, the government's stance looks flaccid. Salmon numbers may not return to their previous levels until 2020, if at all. Next week, Canada hosts an international conference on governing high-seas fisheries. Its theme is “moving from words to action”. That is something the DFO seems to find hard. It failed to prevent the collapse a dozen years ago of the once-legendary cod fishery off Canada's east coast. With anarchy on the Fraser, stocks in peril and an unreformed fisheries department, British Columbia's prized salmon fishery seems to be swimming towards the same fate.

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Vietnam

America lost, capitalism won

Apr 28th 2005 | HANOI AND HO CHI MINH CITY
From The Economist print edition

AFP

Thirty years after Saigon fell, the south has prospered while the north has lagged

ON THE steps of the Reunification Palace in Ho Chi Minh City, a guide recounts the final, dramatic moments of the Vietnam war. On the morning of April 30th 1975, two tanks of the “liberation forces” crashed through the gates of what was then the presidential palace of South Vietnam, in what was then Saigon. One of the tank commanders raced to the roof to tear down the flag of the American-backed regime and raise a communist banner in its stead, symbolically reuniting the two halves of the country and putting an end to 30 years of conflict.

The guide himself, however, does not seem very stirred by this story. He tells it only halfway through his tour, as one of a number of historical anecdotes. Like most Vietnamese, he was born after the war, so feels little personal connection to the events he recounts. He is from the north, he says, but has come to the south to improve his English and find a good job. From the rooftop, he gazes not at the famous tanks enshrined in the grounds below, but at the high-rises sprouting from the city's skyline, emblazoned with American brand names such as Citibank and Sheraton.

The 30th anniversary of the fall of Saigon may provide Vietnam's elderly leaders and the international media with an occasion to dwell on the legacy of the war. But for most Vietnamese, the country's critical fault-line no longer lies between north and south, or labour and capital, but between those who have embraced the government's recent economic reforms and those who are still dragging their feet.

Little trace remains of any hostility towards America—just one, after all, of the many countries Vietnam fought during the past century. It went to war more recently (in 1979) with China, a perennial enemy over the last millennium, and the authorities still seem more suspicious of their northern neighbours and fellow communists than of anyone else. America and Vietnam restored diplomatic ties in 1995, and signed a trade pact in 2000. America is now Vietnam's largest export market. Disputes between the two countries hinge more on tariffs and market access than on war crimes or missing soldiers.

Last year, United Airlines resumed flights to Ho Chi Minh City—which still bears the code SGN. A pilot who was lionised during the war for bombing the presidential palace in Saigon is now looking forward to captaining Vietnam Airlines' first commercial flight to America—on one of the firm's ten Boeing jets. Last month, Ho Chi Minh City received an American naval vessel for the second time in as many years. Locals scarcely batted an eyelid at the sight of uniformed American sailors wandering the streets.

Tensions between north and south have proved harder to erase. The two regions have always been very different. The warm southern climate, for example, permits three rice crops every year in the Mekong delta, while farmers in the chillier Red River basin in the north can manage only two. In pre-colonial times, southern rulers were more hospitable to immigrants, leaving the south with a higher proportion of ethnic Chinese. Southerners and northerners speak different dialects, eat different food and even—according to popular belief—have different temperaments. Northerners are considered reserved and bookish, while southerners are thought to be friendly and flamboyant—much like the stereotypes of Scandinavians and Mediterraneans in Europe.

The war exacerbated these differences. For one thing, the south suffered less from American bombing, leaving it with better infrastructure. What is more, northerners have lived under a communist regime since 1954, whereas southerners have much more recent experience of capitalism. The flight of well-to-do southerners in the face of the communist advance in 1975, and the subsequent exodus of boat people, has left the south with a bigger diaspora. These links to *viet kieu*, or overseas Vietnamese, give the south a more cosmopolitan outlook, and provide southern businessmen with capital and ideas.

North and South

Comparison of selected Vietnamese province groups

	Northern seven*	Southern four†
Population, m	10	5
Exports per person, 2003, $	50	785
FDI‡ per person, 2001-03, $	60	570
Enterprise Law investment§ per person, 2000-03, $	84	103
New jobs per '000 persons:		
2000-02	7	41
2003	3	12

*Around Hanoi †Around Ho Chi Minh City
‡Implemented foreign direct investment
§Licensed private investment

Source: UNDP

All this helps to explain why the south has taken to the government's economic reforms so much more readily than the north. After 1975, the victorious communists abolished free enterprise throughout the country, and forced farmers into collectives. Following a brush with famine in the early 1980s, however, the authorities eased restrictions on private enterprise, first in agriculture, then for foreign investors, and, most recently, for local businessmen. On the whole, the reforms have proved a great success: Vietnam's economy has grown by an average of 7% for the past decade. But the progress has been very uneven (see chart). Ho Chi Minh City alone accounts for 17% of national output, 30% of foreign investment and 40% of exports—far in excess of its 9% share of the population. Local income per head is roughly four times the national average. Throw in the four adjacent provinces, and the share of output rises to 40%, and of exports to 70%.

But to dwell on the enduring differences between north and south is to ignore several key points. First, regional variation in Vietnam is much more complicated than that. There are plenty of poor southern provinces and rich northern ones. The Central Highlands, a mountainous region of the south, has much more in common with Vietnam's rugged border provinces with China than with the prosperous Mekong delta. The central part of the country, encompassing provinces from either side of the former political divide, is as distinct as the north and south, with its own dialect, cuisine and climate. The government, at any rate, always takes pains to make sure senior offices are divided equally between north, south and centre. That is why the current prime minister comes from the south, while the head of the communist party is from the north, and the president from the centre.

Moreover, northerners have no lack of entrepreneurial drive. The streets of Hanoi are so crowded with merchants that hawkers often take turns to occupy the same bit of pavement at different times of the day. Many northerners, such as the guide at the Reunification Palace, migrate south to improve their economic prospects. Many of the most successful businesses there are run by northerners.

AFP

The wheel of fortune

Last year, a group of Vietnamese and foreign academics analysing the differences in investment and growth rates between north and south came to the conclusion that the attitude of local bureaucrats explained the disparities better than any other factor. In theory, the same investment law applies throughout Vietnam, but some provincial governments are more accommodating than others.

Ho Chi Minh City, for example, has refurbished a beautiful colonial building as an investment-promotion office. English-speaking officials enumerate the city's many advantages with the help of PowerPoint displays and glossy brochures. The city government, explains one, can process applications for various business permits online. It is also starting up an “e-discussion” scheme to answer investors' queries, in both English and Vietnamese.

By contrast, Pham Huy Dap, an investment-promotion officer in the northern province of Bac Giang, shows visitors to a dim, damp and cramped office, without a computer in sight. His sole promotional material is a poorly printed leaflet describing plans for a new industrial estate, in Vietnamese only. The local economy relies more on state-owned firms than on private enterprise, he explains. The biggest employer is a government fertiliser factory. No wonder that between 2000 and 2003 the province received no foreign investment at all, and only $24 per head in domestic private investment, compared with national averages of $88 and $105.

But even Vietnam's most benighted provinces contain inklings of change. Bac Giang is setting up a “one-stop shop” for investment approvals, and creating an investment-promotion website. The new industrial estate has now attracted some private firms from China, just a few hours' drive away. Labour is cheaper than in Ho Chi Minh City, and the infrastructure less congested. All provinces, Mr Dap explains, are competing with one another to offer simpler procedures and more enticing incentives, in the hope of attracting more investment. The forward march of entrepreneurialism, it turns out, is proving just as infectious and irrepressible as the communist insurgency was during the war.

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Taiwan and China

Popping home

Apr 28th 2005 | BEIJING
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The Kuomintang's brief return to China

Get article background

AFP

Paying homage to Sun Yat-sen

IF IT had happened five years ago, it would have been an extraordinary breakthrough. This week's visit to China by Lien Chan, the chairman of Taiwan's Nationalist Party, or Kuomintang (KMT), is the first by a man of his rank since 1949 when the KMT lost the Chinese civil war and was forced to flee to Taiwan. But now the KMT rules neither China nor Taiwan. So is Mr Lien's trip anything more than an interesting footnote to history? Optimists say it still could be.

China cannot bet on the KMT ever regaining power in Taiwan (the next presidential elections are not due until 2008). Nor can it rely on Mr Lien himself remaining an influential force within the party. At 68, and having lost two successive bids for the presidency, Mr Lien's political career is probably nearing its end. A younger generation of KMT politicians, their outlook less shaped by nostalgia for the Chinese mainland, will soon take over.

By showing goodwill to Mr Lien, who served as Taiwan's prime minister and later as vice-president between 1993 and 2000, China could be trying to send a message to Taiwan's public that supporting Mr Lien or a like-minded successor would help ease tensions between the two sides. China refuses to negotiate with Taiwan's government, not least because the ruling Democratic Progressive Party wants the island's permanent separation from China.

But it is just as plausible that China wants to use Mr Lien's visit to send conciliatory messages to Taiwan's President Chen Shui-bian, who has promised not to push for formal independence. Mr Chen at first denounced Mr Lien's plans, arguing that the trip was too soon after China's adoption in March of an anti-secession law authorising the use of force against Taiwan should it assert its independence. In the end he gave his blessing, despite protests by pro-independence activists.

Not even Mr Lien, for all his family roots in China (his trip includes a visit to his hometown of Xian), has shown any interest in discussing reunification any time soon. He says he wants to maintain the status quo between the two sides and supports the idea of an interim agreement lasting 30-50 years whereby Taiwan would agree not to declare formal independence in exchange for a pledge by China not to attack. Neither China nor Mr Chen has explicitly rejected this, so far at least.

China will have a chance to probe Mr Chen's thinking next week when James Soong, the leader of the People First Party (PFP) which broke from the KMT in 2000, also pays his first visit to the mainland since 1949. The PFP and KMT share many common views. In February, however, Mr Soong signed an accord with Mr Chen in which the two set out a consensus on cross-strait issues. One of Mr Chen's apparent aims was to show China that there was not really such a big gap between his views and those of the opposition.

If China can refrain from using the opposition leaders' visits to snipe at Mr Chen, they could help to

reduce some of the antagonism generated by the anti-secession law. China is worried about the negative reaction to the law not only in Taiwan and America (where it was predictable) but in Europe. It may well be in a mood for showing a bit of goodwill. The shame is that it still cannot bring itself to do so directly to Mr Chen.

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Anti-Japan protests in China

Waiting for May

Apr 28th 2005 | BEIJING
From The Economist print edition

Meanwhile, the government adjusts the thermostat

CHINA'S well-wired nationalists have been given a choice: carry on using mobile phones and computers to organise anti-Japanese demonstrations and face the wrath of officialdom, or call a halt to the biggest protest movement of recent years.

Both the Chinese and Japanese governments are stepping up efforts to defuse the anti-Japanese unrest that has erupted in several of China's biggest cities since early April. At an Asia-Africa summit in Jakarta last week, Japan's prime minister, Junichiro Koizumi, reiterated Japan's apology for its wartime behaviour. He also met China's President Hu Jintao on the sidelines of the summit, easing growing concerns that a relationship vital to East Asian stability could enter a freeze.

Mr Hu repeated China's demands for more solid evidence of remorse (China wants an end to Mr Koizumi's visits to the Yasukuni Shrine where war criminals are among those enshrined). But the photograph on the front pages of China's state-controlled newspapers, which select such images advisedly, was of the two men shaking hands.

Most significantly, the Chinese government has begun to ratchet up pressure on the demonstrators. It has expressed particular concern about the use of mobile phones and the internet to organise unauthorised demonstrations. Most of the protesters have been students and office workers whose ability to mobilise using these tools has clearly unnerved the authorities. After Japan, their next target might, after all, be the Communist Party.

Officials now point out that merely to circulate such messages without permission is illegal. Anti-Japanese websites have dutifully removed them. The Shanghai government this week announced the arrest of more than 40 people, mostly for disorderly behaviour during anti-Japanese protests on April 16th. A newspaper run by the city's party committee said the protests were in fact not patriotic at all but part of a “behind the scenes plot”—though it didn't explain what the plot was.

The government's tougher tactics may be working. Last weekend was the first this month in which no large anti-Japanese protests were reported (demonstrators have avoided workdays). But the most crucial test of the authorities' ability to quell the unrest will come next week. At least until the government's position began hardening, online activists had been calling for big demonstrations on workers' day, May 1st, and in particular on May 4th, the anniversary of the start of a patriotic movement protesting at concessions to Japan made at the Paris Peace Conference in 1919. The police will be out in force.

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Japan

Two steps back

Apr 28th 2005 | FUKUOKA
From The Economist print edition

Big by-election losses will weaken the opposition and slow political reform

Get article background

MANY Japanese crave more vigorous competition between the opposition Democratic Party of Japan (DPJ) and the ruling Liberal Democratic Party (LDP). The DPJ did well in upper-house polls last summer and in general elections the year before, but it badly needs to boost that momentum if it is to have any chance of winning the next general elections, due by 2007. So the DPJ had a lot riding on a pair of lower-house by-elections on April 24th, one in the south-western city of Fukuoka, the other in Miyagi, up north. In the event it ran dreary campaigns and lost both, giving back two seats it had won in 2003. This week, as Junichiro Koizumi celebrated his fourth anniversary as prime minister, the opposition was in a sorry state.

The Fukuoka loss was especially bad for the DPJ. It had won the seat in 2003 by beating a close ally of Mr Koizumi, Taku Yamasaki, who had been weakened by a sex scandal and by his ties to the prime minister. But the DPJ candidate, Junichiro Koga, was discovered to have lied about his education and resigned. Mr Yamasaki fought this week's by-election to win back his seat. Although he should have been beatable, he won.

The constituency is split between conservative, long-established residents who tend to back the LDP and newer flat-dwellers who live near an office district and are fed up with the ruling party. The DPJ tapped into this sentiment in 2003, and this time fielded a likeable and accomplished candidate. But his party failed to muster a compelling message or a coherent attack, and people who should have voted for it failed to turn out. This failure, in precisely the sort of mixed district the DPJ will need to win in the next general elections, shows just how far it still is from taking power.

The opposition gained ground last summer by hammering relentlessly on a couple of issues—pensions and Iraq—on which Mr Koizumi was weak, and by tying those two issues into an indictment of his character. Mr Koizumi wanted to delay any debate on long-term pension reform until after last summer's polls, but found it impossible to do so after members of parliament from both parties were found to have missed mandatory premium payments. Katsuya Okada, who took over the DPJ early last year, refused to let up, portraying Mr Koizumi as arrogant and out of touch. He stuck to this theme when Mr Koizumi told foreign leaders that he would change the details of Japan's peacekeeping deployment in Iraq, without having first consulted Japan's parliament.

Since last summer's victory, however, Mr Okada and his DPJ have lost the plot. Voters nowadays are not very keen on Mr Koizumi. They tend to dismiss his one-line slogans as empty talk. But the DPJ is not saying much either—and at least Mr Koizumi says it briskly.

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Indonesia

Uprooting graft

Apr 28th 2005 | JAKARTA
From The Economist print edition

Maybe for real, this time

Get article background

IS PRESIDENT Susilo Bambang Yudhoyono at last getting serious about tackling corruption? April saw Indonesia's new anti-corruption court hand down a first verdict, when it convicted the governor of Aceh province, Abdullah Puteh, of trousering 3.6 billion rupiah ($380,000) of 12.6 billion rupiah that had been allocated to buy a helicopter. Mr Puteh was imprisoned for ten years—two more than the prosecutors had demanded—and fined 500m rupiah.

The greedy governor is not the only regional official or elected representative facing graft charges. Indonesia Corruption Watch, a non-governmental organisation, says several hundred more are either being investigated, prosecuted or are in jail for similar alleged offences. After Mr Puteh's conviction, attention has turned to the national electoral commission (KPU), into whose maw the independent anti-corruption commission believes millions of dollars have disappeared during the printing of ballot papers and other logistical operations. Two senior KPU officials have formally been declared suspects, one step short of being charged, and more such namings are expected.

Other signs that the president's long-promised war on corruption is gathering pace are an intensifying campaign against illegal loggers and a high-profile investigation into billions of dollars in loans from the country's largest state bank, Mandiri, which quickly had to be written off as bad debts. Earlier in April, the head of the armed forces promised that in two years' time the army would end its role in business. On a smaller scale, your correspondent can report that police at Jakarta's main driving-licence centre no longer expect bribes to expedite applications.

Such green shoots need to be put in perspective. In one recent survey of businessmen, Indonesia was rated the most corrupt country in Asia in which to do business. Transparency International places Indonesia fifth-worst in its global rankings. When Mr Yudhoyono visited Australia this month, businessmen there complained of the corruption they encounter at all levels of government in Indonesia. A Swiss minister visiting Indonesia said much the same.

The next big test will be the disbursement of the billions of dollars donated for rebuilding the *tsunami*-ravaged regions of northern Sumatra. Some aid agencies are refusing to hand over a penny unless they are certain that the money will not be stolen. The more pragmatic donors, resigned to the inevitability of some “leakage”, are focusing on reducing its scope. Venal officials will have to be careful. With so many millions of individuals around the world having contributed to *tsunami* relief, eyes are fixed as never before on Indonesia and its war on corruption.

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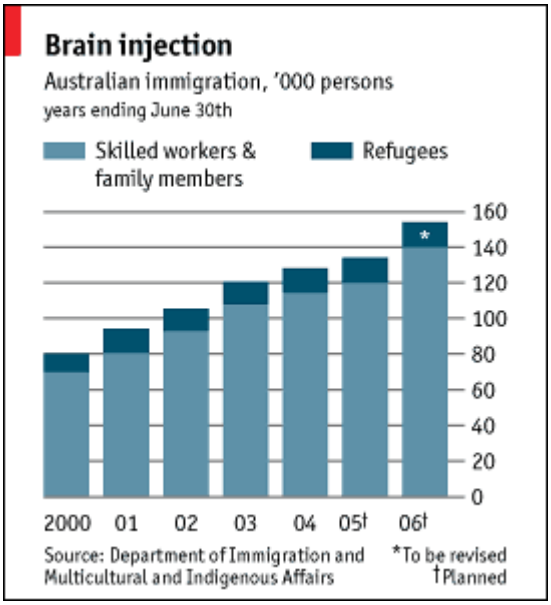
Australia

You can come in now

Apr 28th 2005 | SYDNEY
From The Economist print edition

A skills shortage drives a leap in immigration



Get article background

THE Japanese-owned abattoir at Oakey, in south-east Queensland, seems to have everything going for it. There is no shortage of cattle to feed a booming market that has made Australia the world's biggest beef exporter by value. Yet it has been unable to find enough skilled workers to process the beasts. By June, it expects to import workers from Brazil, Australia's main competitor.

After 14 years of boom, the story of scarce skills is being repeated all over Australia. Under pressure from business leaders, John Howard's conservative coalition government has decided to look beyond Australia to curb the crisis. On April 14th Amanda Vanstone, the immigration minister, said that Australia would take in 140,000 immigrants in 2005-06, 20,000 more than last year and the biggest number for 35 years. Rules on ages and English proficiency will be relaxed. Backpackers who spend at least three months picking fruit or working on farms will qualify automatically for a second year's visa.

From a government that cut immigration sharply in its earlier years, and has since been noted for its tough approach to asylum-seekers, the latest increase suggests how much the economy needs immigration. To a list of 38 skills the country says it is short of, including those of doctors, chefs and hairdressers, Ms Vanstone added 18, including the trades of bricklayers, plumbers, electricians and carpenters.

Official figures show that almost 150,000 jobs cannot be filled for lack of the right skills. A recent survey by the Australian Chamber of Commerce and Industry found that almost 80% of employers were worried about finding people with the needed skills. More than half the firms surveyed last year by two of the country's biggest banks said that a shortage of suitable recruits was hampering their growth.

With unemployment hovering just above 5%, these trends have worried the central bank because of inflationary pressures stoked by higher wage demands. But not everyone is welcoming the new recruits. The opposition Labor Party, and the trade unions, say boosting immigration is no substitute for spending

more on equipping Australians themselves with the skills they need to find work more readily.

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Arab democracy

Should the West always be worried if Islamists win elections?

Apr 28th 2005 | CAIRO
From The Economist print edition

AFP

In Saudi Arabia and elsewhere, Islamists seem to be gaining ground. Many want the chance to prove they are real democrats

IT MAY be four decades since Saudis last voted, and only in a limited local way, but elections for town councils across the country, the final round of which concluded last week, were well timed in one respect. They gave Saudi Arabia's acting leader, Crown Prince Abdullah, some nice-sounding messages to carry to Crawford, Texas, for his potentially awkward meeting with President George Bush, where the pair talked about oil, as well as global politics.

For one thing, he could point to the polls as evidence that the kingdom is getting less autocratic. Not only does that help mollify the many Americans who blame the oppressiveness of Arab regimes for spawning youthful anger and dangerous radicalism. It also gives Mr Bush's administration some cover for its efforts to rebuild ties with America's oldest and most strategically important Middle Eastern ally.

Those ties, severely strained since the attacks of September 11th 2001, are now slowly healing. Saudi Arabia's belated but determined and apparently quite successful campaign to crush Islamist militancy has certainly pleased America. Promises to raise Saudi oil output to bring down petrol prices should also help clear the air. For his part, Mr Bush appeased the Saudis not only by giving the crown prince a warm welcome but also by pledging to back early Saudi entry into the World Trade Organisation and to work harder to secure Palestinian statehood, a cause particularly dear to the de facto Saudi ruler's heart.

The Saudi polls also helped the crown prince argue that it is the Saudi people themselves, and not just their rulers, who wish to keep the place conservative. True, the elections were hardly exemplary. Women were barred. Most eligible men stayed away out of apathetic habit or in silent protest against the 178 councils' limited mandate and the fact that half their members will be appointed anyway. Yet the voting still brought convincingly sweeping victories to Islamist candidates, not just in the conservative interior but in the relatively liberal coastal cities of Dammam and Jeddah. In many cases, winning slates had been specifically endorsed by popular preachers, via such tools as internet websites and telephone messaging.

In other words, the Saudi leader could warn Mr Bush that if America truly wants Arabs to democratise as a foil to extremism, it must expect results that may not be entirely to its liking. This message is not new. Arab governments have long excused the curbs they impose on political freedom by raising the spectre of

Islamism.

But the political strength of Islamism has grown increasingly plain, not only in Saudi Arabia. In Iraq, religious parties are the strongest to have emerged among both Sunnis and Shias. When Palestinians vote in a new legislature this summer, the Islamic Resistance Movement, better known as Hamas, and Islamic Jihad are both expected to make gains against secular parties. The Muslim Brotherhood, the oldest of Islamist parties, remains the most credible opposition group in Egypt and Jordan. It is even making a slow comeback in Syria, where it was nearly hounded to extinction during the 1980s. In faraway Morocco, two Islamist parties, one “loyalist” regarding the monarchy, the other dissident, have made headway against the once dominant socialists and liberals.

What unites these groups is not simply a commitment to defend Islamist values. Compared with other movements in the very broad Muslim political spectrum, many of the emerging forces are relatively progressive. They have gained from the Arab public's frustration with their own governments' failure to deliver better living standards as well as from anger at perceived western belligerence against Islam. But they have also largely adopted “western” values, such as democracy and constitutional limits to executive power.

For example, many of the Saudi clerics who endorsed what came to be known as “golden lists” did not come from the state-sanctioned Wahhabi religious hierarchy. Unlike such officials, who have tended to preach blind loyalty to the monarchy, more popular preachers talk instead of the rulers' responsibilities towards their people. And many of the winning Islamist candidates were not bearded fundamentalists but technocrats with records of charitable public service. While conservative on such prickly issues as women's rights, their emphasis is more on keeping an Islamist framework than on the rigid enforcement of traditional values. Reforms that have vexed Wahhabi traditionalists, such as purging school books of anti-infidel venom, may meet less resistance.

Modernising currents in Islamism have evolved far more slowly in Saudi Arabia than elsewhere. Moroccan Islamists, for example, have broadly endorsed recent government initiatives to expand women's rights. The published platform of Egypt's Muslim Brotherhood calls for parliamentary rule, separation of powers, and protection of minorities. Although charged by America with terrorism, Lebanon's Hizbullah has often adopted more progressive stands on social and religious issues than its rival and supposedly more moderate Shia party, Amal. Iraq's top Shia cleric, Grand Ayatollah Ali al-Sistani, preaches against both sectarianism and the notion of Iranian-style clerical rule.

Even in Saudi Arabia, the emergence of newer forms of Islamism suggests a growing public discomfort both with state-imposed orthodoxy and more radical, romantic and violent trends. Saudi voters reflected wider Arab attitudes not only by rejecting candidates tarred as liberals and secularists. They did so by shunning the most extreme conservatives. And as some Saudi analysts note, this is just a small beginning. Next time Saudis vote, the age limit may drop from 21 to 18, more men may choose to register, and maybe even women will get a chance to be heard, too.

But there is another factor that may prompt Saudis, and other Arabs, to express newfound freedoms in more moderate ways. Islamist parties have long blamed western powers for blocking their progress, charging that they have actively colluded with oppressive Arab governments out of fear of political Islam. Algeria, whose thwarted choice of Islamism in 1990 elections sparked civil war, is often cited as an example. Increasingly, in Washington and other western capitals, the opinion gaining ground is that any solid, popularly elected government is better than a shaky autocratic client.

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Iraq

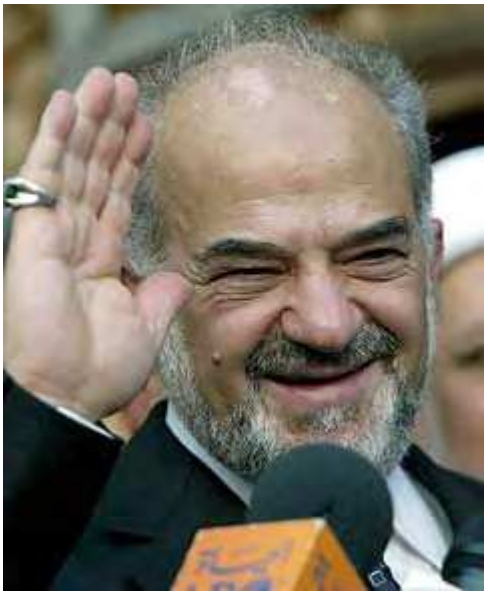
At last, a new government

Apr 28th 2005 | BAGHDAD
From The Economist print edition

Iraq's new administration must win the hearts and minds of enough insurgents

Get article background

EPA



The prime minister has a team

AFTER nearly three months of seemingly endless and undignified rounds of bickering over the spoils of office, Iraq has—at a pinch—got a new government. After the president, Jalal Talabani, and his two deputies gave it their required nod, the new parliament promptly ratified it. The incoming team must now embark wholeheartedly on the momentous task of persuading the insurgents to lay down their arms or, failing that, to rally the majority of Iraqis who voted for the new order to help the American forces, their allies and the burgeoning new Iraqi army and police to defeat or at least contain them.

The prime minister, as was long expected, is Ibrahim al-Jaafari, a medical doctor and long-time former exile who heads the Dawa party, one of the two main components of the United Iraqi Alliance, the so-called “Shia list” that won 140 of the 275 seats in the new parliament. Though there may be further adjustments, Dr Jaafari said his cabinet would include 32 ministers and at least three deputy prime ministers, with a fourth deputy perhaps being added later, presumably to boost the much-needed representation for Sunni Arabs, who, at 20% of Iraq's population against the Shia Arabs' 60%, provide the core of the insurgents. Dr Jaafari said his cabinet would include 17 Shia Arabs, eight Kurds, six Sunni Arabs and one Christian; seven of his ministers would be women. The deputy prime ministers would be a Sunni Arab, a Shia Arab and a Kurd. President Talabani is a Kurd too.

The oddest wrinkle is that the key ministerial posts for defence, oil and electricity have still not been chosen. Defence will be temporarily taken by Dr Jaafari himself, the other two by deputy prime ministers, pending final appointments. Ahmed Chalabi, the secular-minded Shia who was for long the Pentagon's favourite to lead Iraq but who fell out of favour last year, has become a deputy prime minister, temporarily in charge of oil. A Sunni Arab deputy prime minister is to handle electricity.

The outgoing prime minister, Iyad Allawi, a secular Shia, strove to bring Sunnis back into government and into the army and police, even if they had been in Saddam Hussein's Baath party, as the best way to bring disaffected Sunnis on board. But the new Shia establishment has sought to resist that trend.

After a relative lull following the election, which was a blow to the insurgents' morale, the violence has hotted up again, especially between Iraqis themselves. The big question now is whether the Sunnis in the new team will have the clout within their own community to make a difference.

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Iran and its minorities

Down in the second class

Apr 28th 2005 | TEHRAN
From The Economist print edition

Iran's government fails to read the warning in an Arab riot

Get article background

CONSPIRACY-MINDED Iranians have had a field day arguing over who circulated a provocative letter which sparked three days of sectarian rioting earlier this month in Ahwaz, capital of the southern province of Khuzestan. Persian nationalists suspect Arab neighbours of stoking resentment in Ahwaz's big Arab minority. Others recall the area's former subjugation by outsiders; one blogger detected “the stench of British policies” in the unrest. In any event, Iran's governing reformists suspect that their conservative opponents will use the riots to add threat and fear to the presidential election in June. Do not expect Ali Akbar Hashemi Rafsanjani, the canny former president who this week strongly hinted he would seek to get back his old post, to make minority rights a plank of his campaign.

Few people think that the offending letter, which proposed measures to reduce the proportion of Arabs in Khuzestan, was the work of the official whose signature—forged, he insists—it carried. Broadcast by al-Jazeera, a popular Arab television station with a big following among Khuzestan's 2m or so Arabs, and widely circulated by hand, the letter inspired crowds of young people to attack government buildings. This went on until the police intervened with rubber bullets, say the authorities—though some Ahwazis say live rounds were used—killing five and arresting more than 300.

Pro-establishment forces marched through Ahwaz on April 22nd. Aware that the precise identity of the *agents provocateurs* may never be established, they contented themselves with excoriating “all domestic and foreign enemies, especially Israel and the United States”. Missing from their statement was any acknowledgement that the riots could serve as a warning that Iran, for all the stability of its ethnic Persian heartland, remains vulnerable to dissatisfied minorities on the periphery.

Their dissatisfaction is less virulent than it was in 1980, when many Iranian Arabs and Kurds cheered—and, in the case of the Kurds, joined—Saddam Hussein's bid to invade Iran. Since Muhammad Khatami became president in 1997, Iran has managed its minority relations with more sensitivity. Thanks to him, Arabs and Kurds are better represented in local bureaucracies (they always had seats in parliament); each lot has a high-profile cabinet member. Learning Arabic, albeit for reasons of religion rather than communal harmony, is compulsory in schools across Iran. (Of the country's 70m, nearly 5m are Kurds and over 2m are Arabs.)

So why does Ahwaz erupt periodically? Its last serious riot was less than three years ago. The answer is that the Arabs there feel deprived of their rightful share of profits from Khuzestan's hugely profitable oil and gas. Although the country's economy relies on Khuzestan's hydrocarbons, the revenues go elsewhere, and the province has one of the highest unemployment rates in the country.

Arabs now form an underclass in the suburbs of Ahwaz. They find it hard to get jobs in the oil industry. Ethnic Persians tend to avoid hiring them. One Persian professional in Ahwaz declared that the riots were caused by “unemployed drug addicts”. Sadly, that may not be far from the truth. Thanks in part to unemployment, some 4m Iranians are said to be drug users, and the problem is especially acute in Khuzestan.

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Togo

Who's in charge?

Apr 28th 2005 | LOMÉ
From The Economist print edition

A presidential election in Togo may have made matters even worse

EPA

We woz robbed

GANGS of angry youths wearing the yellow colours of the opposition flung stones at gendarmes from behind impromptu barricades in the capital, Lomé, as their political leaders called for a national insurrection. Burning tyres and tear-gas grenades set smoke swirling over the whole city, as soldiers watched the swelling crowds from behind the barrels of their machineguns. Yet another dodgy election in Togo, one of the least democratic countries in one of the world's least democratic regions, has thrown the southern half of this small West African state into a rage.

When Sergeant (later General) Gnassingbé Eyadéma took part in a coup in 1963, then seized power for himself in a further coup in 1967, he began one of Africa's longest and most autocratic regimes. Any semblance of democracy was spurned for nigh on 30 years. A former wrestling champion with a passion for hunting and largesse, President Eyadéma won elections comfortably, but increasingly controversially, in 1993, 1998 and 2003, often with a French nod of approval.

His death, on February 5th, prompted an improbable series of events. The country's borders were closed, which prevented the constitutional successor, Fambare Natchaba, from returning from abroad. The National Assembly, stuffed with members of the ruling party, hurriedly changed the constitution, and four generals from the all-powerful army announced that one of Eyadéma's many children, Faure Gnassingbé, had replaced his father as head of state.

The cheating was so flagrant that even the usually lethargic African Union (AU) and the Economic Community of West African States (ECOWAS) felt obliged to protest. The AU denounced it as a “military coup d'état”. ECOWAS then imposed sanctions, and on February 25th Faure Gnassingbé resigned, promising free and fair elections within 60 days, as the constitution had originally required.

The main opposition parties, in a rare show of unity, agreed to back a single candidate for president. This would have been Gilchrist Olympio, himself the son of a former president, Sylvanus Olympio, who was killed in the coup of 1963. But he was barred on the grounds that he no longer lives in Togo, so his deputy in the Union of Forces for Change, a dullish former engineer called Emmanuel Bob Akitani, was chosen instead.

His campaign never really got going. In many of his meetings he talked only in Mina, the main language of the south. Mr Gnassingbé, on the other hand, ran an expensive campaign in which he promised “change in stability”, an admission that his father's long reign had not been entirely glorious. He was sure of huge support in the north, where his father was from, but also expected to win votes in the south, thanks in part to a southern mother.

As the election approached, the opposition coalition got more desperate. Mr Olympio said the coalition should win 90% of the votes. Mr Akitani alleged that wholesale fraud was being prepared. Two days before the poll, the minister of the interior, Major François Boko, oddly agreed, denouncing the elections he was charged with organising, so the government sacked him.

On election day, polling stations in opposition areas, mainly in the south, opened late. In some areas,

gendarmes swooped in as the polls closed and made off with the ballot boxes. Fights left supporters of both sides injured and at least three people dead. France, which has long backed the Eyadéma family, said it was broadly satisfied with the elections, incurring the anger of the Togolese and French opposition. In private, ECOWAS election observers admitted to huge problems.

The next day, Nigeria's president, Olusegun Obasanjo, the most powerful man in the region, called both Mr Gnassingbé and Mr Olympio to his capital, Abuja. After hours of talks he announced that they had agreed that the winning side would bring the losers into a government of national reconciliation.

But when Togo's supposedly independent electoral commission proclaimed that Mr Gnassingbé had provisionally won with an improbable, yet not impossible, 60% of the vote, opposition supporters went on the rampage. In their strongholds, clashes between police and young demonstrators were often violent. The University Hospital in Tokoin, a district of Lomé, treated 95 people that night, many for bullet wounds. So far, at least 20 people—some reports say more than 100—have died in the violence.

By April 27th, the protesters had not made real inroads. Mr Akitani had declared himself president. But the Togolese army, almost entirely composed of northerners from the same ethnic group as the late President Eyadéma and loyal to his son, is a tough nut to crack. President-elect Faure Gnassingbé, western-educated and only 39, says he will stick to his promise to form a government of national unity. “I will make a new Togo,” he claims, “more democratic and more open. And no, I have no intention of staying in power for 38 years, like my father.”

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French politics

Après mai, le déluge?

Apr 28th 2005 | PARIS
From The Economist print edition

AP

With a “no” vote in the Euro-referendum looming, politicians prepare to minimise, or else exploit, the fallout in Paris

Get article background

IT WAS once a nightmare scenario; now it is becoming a working hypothesis. Every one of the 20-odd polls since mid-March suggests the French are set to reject the draft European constitution at their referendum on May 29th, with the “no” vote mobilising 51-58%. The question is increasingly not whether France will say no, but what will happen if it does.

The result of the French vote is not a foregone conclusion. One poll this week, by Ipsos for *Le Figaro*, put the “no” vote at 52%, against 48% for a “yes”—a highly uncertain margin. When asked, in the same poll, not how they would vote but what result they would like to see, 38% hoped for a “no”, next to 37% for a “yes”: an even finer balance. Moreover, France has plunged itself into a real debate. Political discussions rage constantly on television and the radio; constitutional texts have become unlikely items on the bestseller list.

This week, Germany's Chancellor Gerhard Schröder turned up in Paris to help President Jacques Chirac step up his effort to turn opinion round. To cast a “yes” vote, said the French president, would be to choose a “more powerful Europe” and “to reinforce France”. All the same, in the face of a persistent string of “no” polls, the government is beginning to steel itself for the worst. Manoeuvring for the day after has already begun.

If the French do vote “no”, one thing can be ruled out: the resignation of President Chirac. That is despite the fact that a precedent exists. Charles de Gaulle quit after losing a referendum (on a constitutional reform) in 1969, a year after France was rocked by the rebellion of May 1968. When asked in a recent televised debate whether he would repeat de Gaulle's gesture, President Chirac replied clearly that he would not. The referendum, he said, was not a plebiscite on his rule.

All the same, swelling discontent with Mr Chirac's government, combined with a weariness as his tenth anniversary as president approaches in May, feeds the “no” camp. Whether he likes it or not, a rejection of the constitution would in part be a rejection of him. While the president would surely try to rise above

defeat, appealing to the unity of the nation and the need to respect the will of the majority, his authority would be seriously weakened. Discontent and protests would spread.

How could he restore credibility? One option might be to dissolve the National Assembly and seek a fresh mandate for a new government. But the last time he did this, in 1997, parliament lurched to the left and Mr Chirac ended up "cohabiting" with a Socialist prime minister, Lionel Jospin. Mischievous minds wonder if a repeat of that outcome might not rather suit Mr Chirac: two years of a Socialist government ahead of the 2007 presidential election might help to weaken the left and restore the right—possibly even Mr Chirac himself—to power. Yet this scenario is far-fetched: too uncomfortable and too risky.

So many reasons to say "non"

I will vote against the constitution because...	%*
a better constitution could be negotiated	27
the constitution is too economically liberal	27
the constitution threatens French identity	25
it's a chance to oppose Turkish membership	20
the European project is negative for France	18
it's a chance to oppose Chirac's government	11
the party which I support has called for a "no"	5

Source: Ipsos/*Le Figaro* *Multiple answers allowed

Shuffling prime ministers

The most likely upshot of a French "no" would be a government reshuffle, and the replacement of Jean-Pierre Raffarin as prime minister. Doggedly loyal but uninspiring, Mr Raffarin has seen his confidence rating sink from 64% in 2002 to just 27% today, according to TNS-Sofres, a pollster. Even his own ministers, jostling for position as his successor, have begun to undermine him. Most noisily, Dominique de Villepin, the former foreign minister now at the interior ministry, called last week for a change of direction in government whatever the referendum result, a comment widely interpreted as a call to replace Mr Raffarin—and a declaration of his own candidacy for the job.

Mr de Villepin indeed appears to be the most likely successor. Loyal to Mr Chirac, he was for several years the president's chief of staff and embodied France's opposition—to huge popular acclaim—to the war in Iraq. A romantic idealist, who writes poetry in his spare time and keeps a bust of Napoleon in his office, Mr de Villepin would not be a straightforward choice, however. He is unelected, having never stood for office, and so not obviously suited to the prime minister's job of keeping difficult ministers and deputies in line and listening to the electorate. And he is tempestuous. While foreign minister, for instance, he once mounted a unilateral mission to rescue a French hostage from the jungle in Colombia, which ended in failure and fiasco.

There are alternatives. They include Michèle Alliot-Marie, another Chirac loyalist who has been a tough and admired defence minister; Jean-Louis Borloo, the jobs minister; or Thierry Breton, the new finance minister and former telecoms boss, though he is also unelected. There is, though, a further option, and in many ways it is the most logical one: Nicolas Sarkozy, the ambitious head of the ruling UMP party who has been a longstanding challenger to Mr Chirac's leadership of the political right.

The appointment of Mr Sarkozy, who has never hidden his hopes of succeeding Mr Chirac, would not automatically boost confidence in government: he too has been campaigning for a yes, and so would carry some of the responsibility of defeat. But his appointment would certainly inject an impressive dose of energy and purpose into government.

He remains the most popular leader on the right, both among deputies and the French at large. Which is why, for Mr Chirac, he would be the most risky choice of all. If Mr Sarkozy made a success of it, he would be well placed to stand in 2007. But the appeal for the current president is that the job might also overwhelm his rival. Under the fifth republic, no French prime minister has ever moved directly from that job to the presidency.

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Spanish gays

Marriages not made in heaven

Apr 28th 2005 | MADRID
From The Economist print edition

As Spain legalises gay marriage, clergy react angrily—and politicians unpredictably

Reuters

Not everyone's cheering

ON THE evidence of history, the Catholic authorities of Spain do not deal gently with those who dissent from religious orthodoxy. Small wonder, perhaps, that this ancient bastion of Catholicism should be the scene of the first big bust-up between the church and a European state under the new papacy of Benedict XVI, who has pledged to reaffirm the continent's Christian heritage.

Emboldened by the enthronement of a leader after his own, conservative heart, the head of the Vatican's Council on the Family—who happens to be a Spanish-speaker, Cardinal Alfonso López Trujillo of Colombia—has reacted furiously to a new piece of Spanish legislation, allowing homosexuals to marry and to adopt children. Calling the law “iniquitous”, the cardinal had urged municipal bureaucrats to refuse to officiate at gay wedding ceremonies, even if it means losing their jobs.

So not for the first time, a Catholic prelate from a Latin country is weighing in against a socialist government, over a sensitive moral issue, and giving heart to the conservative opposition. So far, so very familiar, you may say. But things are more complex than they look.

For one thing, there are some supporters of the People's Party, the centre-right opposition, whose anti-gay zeal is an embarrassment to their fellows. Take Lluís Caldentey, the mayor of the Catalan town of Pontons: he was expelled from the PP after saying homosexuals were “physically or psychologically handicapped” and observing that he “had never seen two male dogs trying to make love.”

Sensing there might be some political capital in denouncing his adversaries' homophobia, the socialist prime minister, José Luis Rodríguez Zapatero, has challenged Spain's conservatives to “look into the eyes of homosexuals, and tell them they are second-class citizens.”

Not everybody has responded to this tactic as the government hoped. While in most cases their language has been more cautious than Mr Caldentey's, dozens of right-wing mayors all over Spain have taken a similar stance, saying they will refuse to conduct ceremonies which offend their conscience—despite the government's insistence that when a law has been approved by parliament, state officials have no choice but to apply it. Nor, say the dissenters, are they prepared to take the easy way out and leave gay weddings to more liberal-minded colleagues.

“I intend not to exercise this authority [to marry gay couples] and not to delegate it to other municipal officials,” insists Javier León de la Riva, the mayor of Valladolid. His counterpart in the town of Ávila has praised him for his “manly stance”.

Yet the leadership of the centre-right is uneasy about these implied threats to break the law. It insists, rather carefully, that all it opposes is the adoption of children by gay couples, and the use of the word *matrimonio*, a term which has clear religious overtones, to describe same-sex unions. What the PP is not questioning—says its leader, Mariano Rajoy—is the state's formal recognition of gay partnerships. He also insists that his supporters in local government must clench their teeth and obey the law—and has produced 16 PP mayors who say they are willing to do so. One PP politician in Valencia's regional assembly reacted to the law by announcing his own homosexuality.

But even among the ruling socialists, there are some whose Catholic conscience has clearly been troubled by the new legislation. Dissent in the ranks of the government has surfaced in embarrassing ways. José Bono, the traditionally minded defence minister, is said to have applauded heartily after attending a dinner in Rome at which a conservative cardinal laid out his opposition to Spain's gay-marriage policy—while his colleague Juan Fernando López Aguilar, the justice minister, sat nearby in stony silence.

The socialist mayor of La Coruña, Francisco Vázquez, is another Catholic of the left: he has given warning that he will not support the bill in the Senate, where it may conceivably be defeated with the assistance of Basque and Catalan conservatives. The measure would then have to be resubmitted to the Cortes, or lower house—where the socialists have a majority, but would nonetheless face another round of bruising arguments.

Shortly before his death, Pope John Paul II scolded Spain's socialists—who had moved to make divorce and abortion easier, and to permit stem-cell research—for pursuing a form of secularism that “restricts religious freedom”. Mr Zapatero's relations with the new pope promise to be stormy too.

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Putin versus Khodorkovsky

"Justice" postponed

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Why was the verdict in Russia's sensational trial delayed?

Get article background

UNIFORMED students from the nearby railway academy wrestled with each other for free "Send Khodorkovsky Home" T-shirts which the tycoon's supporters were distributing outside the Meshchansky court in Moscow.

Across the road, the liberal activists for whom Mikhail Khodorkovsky has, perhaps a little improbably, become an icon of dissent, went ahead with their rally. But, as a laconic note taped to the court's door on the morning of April 27th revealed, the verdict in Mr Khodorkovsky's ten-month trial—the climax of President Vladimir Putin's vendetta against Russia's erstwhile richest man—had been delayed.

Why? There are almost as many theories as there were when, in October 2003, Mr Khodorkovsky was arrested on a Siberian runway. It seemed unlikely that the ex-boss of Yukos, once Russia's top oil company, could have struck a five-to-midnight deal with the government. (The court is universally seen as a Kremlin tool.) He and Platon Lebedev, his co-defendant, have little left to bargain with: Yuganskneftegaz, Yukos's main production arm, has already been renationalised as part of a parallel corporate tax case. The legal choreography over the firm's remaining assets suggests they are heading the same way.

From the defendants' perspective, the most benign interpretation is that Mr Putin's annual address to parliament on April 25th—in which he called for an independent judiciary, and told the tax authorities to stop "terrorising" business—implied a new decision to acquit them on at least some of the charges they face for fraud, embezzlement, tax evasion and running a criminal organisation. Or perhaps the sentences will still be harsh, but it would just have grated too much to have them handed down so soon after the speech.

Was one of the three judges ill? Or was the real, mundane explanation simply that it was taking them longer than expected to write their verdicts? The most popular theory was that Mr Putin has delayed the judgment till after VE Day on May 9th, at which senior western visitors to Moscow might have asked awkward questions. The new date is May 16th.

Garry Kasparov, a chess champion turned politician, also mentioned the potential for embarrassment during Mr Putin's visit to Israel. Relations with Israel, the adopted home of Leonid Nevzlin, another Khodorkovsky lieutenant who has fled Russia, have already been strained by Mr Putin's approval of arms sales to Syria.

But if those are the reasons, why set the April 27th date in the first place? The world and his wife were invited to Moscow for May 9th months ago. Handing down the verdicts in advance had seemed to imply a ballsy Kremlin decision to face down foreign criticism about Russia's "internal affairs". Outside the court, as the defendants' lawyers and relatives came and went, no one seemed the wiser.

Perhaps a twist should have been expected at the end of what has been a surreal legal campaign. The trial took place in a tiny courtroom, with Mr Khodorkovsky and Mr Lebedev sitting in a cage, and the judges intermittently staring into space. Just as bizarrely, Yuganskneftegaz was sold in a rigged auction for $9.4 billion to an unknown company, whose registered address happened to be shared with a provincial grocery. While it lays bare the authoritarianism of Mr Putin's regime, this farrago has also shown something just as troubling: shambolic incompetence.

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Montenegro

A Slav's best friend

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An ancient friendship has its limits

Get article background

MONTENEGRINS often enthuse over their tiny state's best historic friend. “Without Russia, we're half a wagon-load—with them, we're over a hundred million,” is a national aphorism. And at times, Russia has loved them back. Alexander III, the last tsar but one, praised Montenegro's King Nikola as Russia's “sole true and loyal friend”. A century ago, when Russia fought Japan, Montenegro sent soldiers.

Now the Russians are back, but it makes some Montenegrins a bit nervous. High on a hill overlooking a lovely stretch of coast, the Montenegrin and Russian flags fly together at a brassy villa owned by Russian interests. By the sea, earthmovers are refurbishing hotels bought by Russian firms. At least 11% of tourists come from Russia.

During the 1990s, when Montenegro was under sanctions, certain Russians did well busting them. More recently, roubles have poured into the republic to purchase land and to build holiday homes. Now a Russian oligarch, Oleg Deripaska, wants the crown jewels. He is close to buying Montenegro's aluminium plant, known by its initials KAP. It is a big place. The European Bank for Reconstruction and Development tentatively reckons that KAP accounts for 80% of Montenegrin exports and, along with related industries, for 30% of its employment and up to 40% of its GDP.

Today's Russians are not as charming as Tsar Alexander. Take Vladimir Vaniev, the Russian consul, who is furious about the fact that a retired American diplomat has been advising the Montenegrins on KAP's privatisation. In a sarcastic press interview, Moscow's man said he had not known Montenegro was the 51st American state; he would have to inform his masters.

Montenegrin pride was wounded; but only days later, Mr Deripaska struck a tentative deal with Milo Djukanovic, the Montenegrin premier who hopes to break with Serbia and lead his statelet to full independence next year. The Montenegrins insist there is no better offer than the €104m ($135m) in equity and investment offered by the Russian tycoon, whose aluminium group is one of the largest in the world—and faces legal challenges in many countries.

KAP is an environmental nightmare. Tens of millions of euros would have to be spent to bring it up to European regulatory standards. A green campaigner, Aleksandar Raznatovic, says there has been a cover-up of its environmental effects—including many cancers caused by its toxic waste. The Russian package includes $20m for an environmental clean-up, but Montenegrins want to know more about what this means.

What worries Milka Tadic, a well-known local journalist, is what would happen if President Vladimir Putin decided to gobble up Mr Deripaska's Rusal group, just as he did the oil giant Yukos. At that point “the Russian state will own half of Montenegro,” and Mr Vaniev's words will be “just the beginning of how they will talk to us”.

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Germany's generation gap

Where have all the fighters gone?

Apr 28th 2005 | BERLIN
From The Economist print edition

Political attacks on Joschka Fischer have been a generation thing, at least in part

AP

They believed in yesterday

ON THE evening of April 25th, Joschka Fischer, Germany's Green foreign minister, looked as if he could use some help from a charity that specialised in helping battered and distressed politicians. For more than 12 hours he had been cross-examined by a parliamentary committee over what has become known as the “visa scandal”.

Again and again, opposition politicians tried to prove that Mr Fischer knew—far earlier than he had acknowledged—that his ministry's loosening of visa regulations had led to thousands of illegal immigrants entering Germany, and that he had done nothing about this.

To which he replied, with no less firmness, that yes, mistakes were made, for which he had some responsibility; but the loopholes had now been closed and it was pure propaganda to speak of a scandal.

What followed was no less tortuous. Partly because it was the first such interrogation of a sitting German minister to be broadcast live, gallons of ink were spilled and hours of air time devoted to analysing every detail of Mr Fischer's performance. Did he seem weakened? (No, he was almost his usual quick-witted self, though he got nervous and aggressive on the few occasions his interrogators came up with tough questions.) Was he convincing? (Generally yes, although his memory failed him a bit too often.) Will he survive politically? (Yes, barring an unexpected smoking gun, but he will probably never regain his towering political stature.)

Media hype notwithstanding, the visa scandal has a deeper meaning: it may one day be seen as a turning point in Germany's war of the generations. Mr Fischer, a former stone-throwing street-fighter, is not just a popular foreign minister: he epitomises—even more than Chancellor Gerhard Schröder and other leading politicians of his age—the generation known as the “68ers”, who took their first political steps in the late 1960s, when Maoism and other forms of wacky leftist ideology were all the rage.

The visa scandal is the beginning of a counter-revolution of sorts—not just because of the issues at stake, but because of the younger, centre-right politicians driving the inquiry. In more than one way, Mr Fischer is the ultimate “68er”—and he has flaunted that quality in recent years. His enemies are not fooled by the fact that (to a greater extent than his contemporaries) he has made some bourgeois concessions. (As well as donning fancy suits and a signet ring, he shows a marked preference for

hobnobbing with the world's most powerful people and talking geopolitics rather than holding earnest discussions about worthy domestic issues.)

For both his friends and his foes, the main point is that he still indulges in extremes worthy of a street-fighter: he has a powerful ego, and is a former marathon runner who has lost (and regained) considerable amounts of weight. His personal life has also been turbulent: having recently divorced his fourth wife he now has a new, younger girlfriend.

Conservatives see it as an unfortunate historical accident that Mr Fischer and his disorderly friends ever came to power in September 1998. It seemed initially that there was little the opposition Christian Democrats (CDU) could do about it. Their first attempt to put things right backfired badly. In 2001, the surfacing of a photo that appeared to show Mr Fischer beating a policeman at a rally triggered a debate about his militant past. Yet he managed to turn the controversy into a clash of generations, in which he at first prevailed. That duly cemented his role as Germany's most popular politician—a spot he has lost since the visa scandal broke in January.

If the second attack, over visas, has been much more successful, it is in part Mr Fischer's own fault: he failed to see that problems with visa regulations, which he considered a lowly bureaucratic issue, could grow into a full-fledged political scandal endangering his political career. But even if he had reacted more quickly, the explosive mixture would probably have blown up under him anyway. In the public perception, the scandal is about issues dear to the Greens' heart, such as more open borders and multiculturalism, versus security and the economy, which most Germans now care about more.

To the extent that the parliamentary inquiry embodies a clash between rival age groups, it is no longer the Fischer generation that is winning. His adversary in the scandal is Eckart von Klaeden, a poster child for the next generation of CDU leaders. When Mr von Klaeden was born almost 40 years ago, Mr Fischer was squatting in houses in Frankfurt. Mr von Klaeden's youthful rebellion was limited to long hair, heavy metal and, later, a talent for parodying Chancellor Helmut Kohl. Today, he comes across as a mother's favourite son-in-law. And his current political position as one of the CDU's parliamentary leaders, many say, will not be his last.

Even without the visa scandal, there are signs that the “generational project” (as Mr Fischer calls the mission which he and his contemporaries are discharging) may be coming to an end. He and his fellow-68ers have certainly made Germany more liberal, by introducing such novelties as a more modern citizenship law and same-sex partnerships. But they have been much less successful in tackling the country's economic problems. The real news on the day of Mr Fischer's interrogation was not that he managed to pull off a rather convincing performance, but a forecast that Germany's economy is likely to grow by less than 1% this year—much too little to help the great army of jobless.

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Charlemagne

The euro is no cure-all

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French voters are right to fret about Euro-economics

HOW dare those materialistic French fret about unemployment and other bread-and-butter questions as they contemplate the lofty issues posed by the forthcoming referendum? That is what an irate Euro-establishment in Brussels is asking as it watches the Gallic debate. The electorate in France, Eurocrats complain, seems to be ignoring the topic in hand—and anyway, what have job losses to do with the Union's defining document?

In fact, it is not unreasonable for the French and other Europeans to express their anger about the economy when voting on the constitution. For the last decade and more, the signature projects of the EU have been economic ones: in particular the launch of a single market in 1992, and a single currency in 1999. Each of these was sold on the basis of their economic benefits. And yet average unemployment in the 12 euro-area countries is almost 9% and growth is slow. It is not terribly surprising if politicians—seeking to promote the latest brilliant idea from Brussels—now get a fairly cool reception.

Criticism of the economic policies promoted by Brussels may be unsurprising—but is it fair? Economists reckon that the single market has increased growth, albeit by less than promised. And the euro has promoted trade and price transparency—as well as being a huge practical boon. But it is also true that many of the questions raised about the single currency before it was launched have yet to receive a satisfactory answer.

How would less productive economies cope with competition in the euro area when devaluation was no longer an option? Would a single interest rate for such different economies cause problems? Could Europe have a single currency without effective controls on national budgets? And is a monetary union ultimately sustainable without a political union to back it up?

The problems of the Italian economy raise the first question in an acute form. Since the single currency was born in 1999, Italian labour costs have risen by about 20% relative to Germany, because German firms have been much more effective at controlling wages and boosting productivity. While German exports have risen steadily, Italy's are struggling—and the Italian economy is the slowest-growing of the big countries in the euro-area. If Italy had its own currency, devaluation would be a way to restore competitiveness, at least temporarily. But in a monetary union that is impossible. EU policymakers are worried.

In a speech last week at the Brussels Economic forum, Klaus Regling, the senior civil servant in the European Commission's economic directorate, commented that Italy's “loss of competitiveness does not bode well for the country's economic prospects.” The audience waited for the soothingly optimistic balancing sentence that usually follows any such official comment—but it never came. Some EU economists argue that only a wrenching recession—involving bankruptcies and cuts in nominal wages—can now restore Italian competitiveness. And they point out that Italy is not the only country in the euro-area to have a growing problem with competitiveness. Spain, Portugal, Greece and even Ireland, that paradigm of European success, face similar challenges.

But if Italy is suffering a decline in its competitive position, why is Germany not booming? In his speech, Mr Regling hinted that this too might have something to do with inappropriate policies caused by the euro. Strong German exports, he observed, had been offset by stagnating domestic demand. He added: “Unavoidably in a monetary union, countries with below-average costs and prices experience relatively high...real interest rates.” Translation: when Germany needed lower interest rates to boost domestic demand, it did not get them because rates were set for the euro-area as a whole. Worse, Germany may now be stuck in a rut, because, as Mr Regling explained: “Low growth expectations...have become

entrenched.”

A commission's credibility

There is nothing the European Commission can do about the side-effects of a fixed exchange rate and a single interest rate for the euro area—they are inherent to a single currency. But when it comes to controlling budget deficits, the commission is determined to assert itself. Italy is again in the firing line. The commission intends to open an “excessive-deficit procedure” against the Italian (and Portuguese) authorities, for repeatedly breaching the 3% limit on government deficits set for EU countries. Eurocrats see their credibility is at stake. Both Germany and France evaded commission action, by insisting on a rewrite of the EU rules governing government deficits. Many analysts have concluded that the new rules are worthless. Senior figures at the European Central Bank say that it is critical to the future of the single currency that the EU shows it can still enforce budgetary discipline.

But it is far from clear that the commission will win its Italian test case. After seeing the French and Germans escape sanctions, the Italians may see little point in co-operating—all the more so since Silvio Berlusconi, the Italian prime minister, is desperate to push through tax cuts ahead of an election. The difficulty in enforcing budgetary discipline on national governments illustrates why some have always argued that monetary union needed to be followed by political union. Dominique Strauss-Kahn, a former French finance minister who played a crucial role in launching the euro, told last week's Brussels forum that it should not assume that the creation of the single currency was irreversible. If Europe did not advance further towards political union, he argued, there would come a time when political tensions between EU members became so high that they threatened the future of the euro. Unfortunately for Mr Strauss-Kahn, his own country's voters may soon be sending a message that makes life harder, putting it mildly, for political union's keenest advocates. What then happens to monetary union may be the next big question those people must face.

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The election campaign

Now it's personal

Apr 28th 2005
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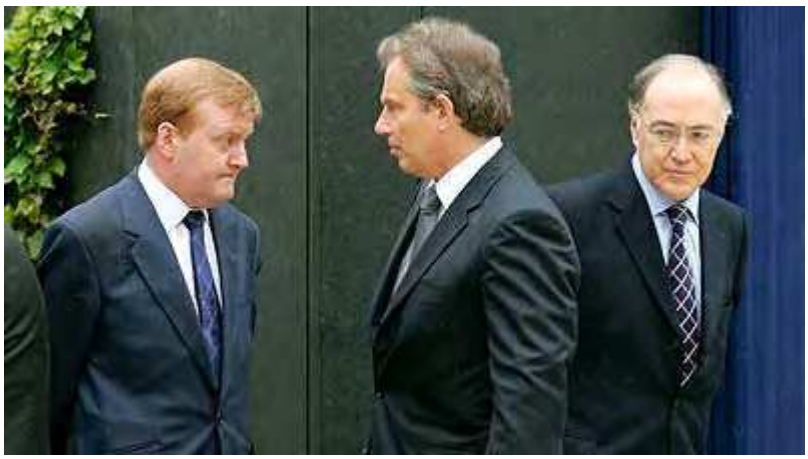
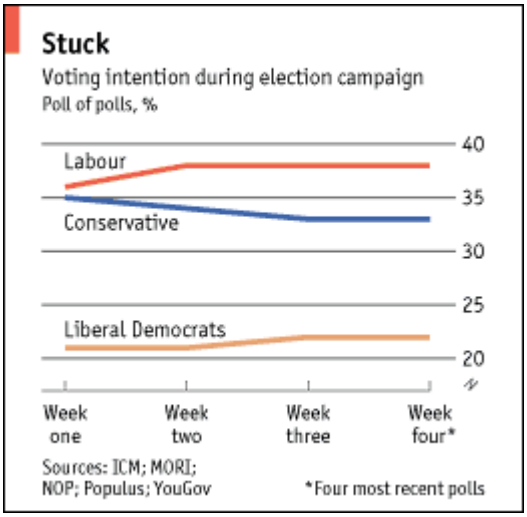
AP



How the Tories' failure to gain ground is shaping the campaigns

Get article background



DESPITE all the whirring of helicopter rotor-blades as prominent politicians are ferried to key constituencies and the humming of computer hard drives as new software programs pick out floating voters, the opinion polls have stayed steady since the beginning of the campaign, apart from a slight dip in support for the Conservatives (see chart) and a drift upwards for the Liberal Democrats. This is unusual—it is the incumbent that normally suffers in the course of a British election campaign.

In 2001, Labour began with a 20-point lead. By the week before the election it had narrowed to 14 points. Even though William Hague, the then Conservative leader, was sure to lose, his campaign had some momentum. This time, although Michael Howard's helicopter has flown the equivalent of five times from Land's End to John O'Groats in the past couple of weeks alone, his party has stayed grounded.

This lack of movement has shaped the campaign. For Labour, the silting up of the opinion polls has allowed the party to run a low-risk campaign, ditching the “masochism strategy” of a few months ago, which involved allowing Tony Blair to take a few cathartic maulings from live television audiences. Instead, it has been able to concentrate on looking more businesslike than its opponents. Rather than worrying about losing, Labour is fretting about the kind of victory it will win.

In particular, Labour worries that the better it does in the polls, the worse it will do on May 5th. If, so the thinking goes, voters believe Labour will win comfortably, then the party's grumpy supporters will stay at home. But if they are persuaded that the Conservatives might win, the likelihood of their getting off the sofa and going to a polling station increases.

This thinking has prompted a new set of posters with the strap-line “if you value it, vote for it”, and is also behind a leak of Labour's private polling to the *Guardian*. These polls purport to show the party struggling in 100 or so marginal seats. This is unremarkable: the seats are called marginal for a reason. If Labour won by three or four points, as YouGov's polls currently suggest, the party would lose about 30

of them. But the leak is revealing of the game the party is playing with its supporters.

For the Conservatives, the way the polls have set has made it hard to persuade people to listen to the party's plans for schools, hospitals and the public finances, since few believe they will be implemented. That leaves them talking about immigration, which is perhaps the only area where they have a clear message that resonates with public opinion. But this focus is not necessarily helpful. The more the Tories say about immigration, the more they sound like a single-issue party rather than a potential government.

This impression has caused jitters throughout the Conservative Party. While many senior figures in the party might have found a campaign with an unpleasant undertone acceptable if it brought success, one that is both nasty and ineffective is a different proposition. In particular, the style of the campaign seems to have put off richer and better-educated voters.

In 2001, when the Conservative Party was hardly held in affection by the nation's canapé eaters, 39% of professionals and managers supported the Tories. According to the latest NOP poll for *The Independent*, support among this group has now fallen to 34%, despite the overall improvement in the party's fortunes since then, and the drop in Tony Blair's approval ratings. Though the Tories have made some gains among working-class voters, according to John Curtice of Strathclyde University, this has not made for a net increase in their support.

So the Tories are now trying something new. Their line of attack has changed to a straightforward assault on Mr Blair. One new poster accuses him of lying in the run up to the Iraq war. This strategy was boosted when a leaked copy of the advice the attorney-general gave the government on the war suggested that he had voiced doubts about its legality. Another poster reads, “imagine five more years of him”, alongside a picture of a grinning Mr Blair. Rather than asking people to vote for them, the Conservatives are willing the electorate to give Mr Blair a good kicking.

There are echoes in this of a campaign involving Lynton Crosby, Mr Howard's chief strategist, in Australia in 1996. It looked as though the Labor prime minister, Paul Keating, could not lose the election—until his opponent, John Howard, suggested that the electorate use its voice to “send a message” to Mr Keating. The tactic worked, and John Howard won a surprise victory.

Yet replicating this success in Britain may be hard. There is a problem in focusing on the issue of personal trust in the prime minister. According to a YouGov poll for Sky News, 62% say they do not trust Mr Blair. But 66% say they do not trust Mr Howard. That makes turning the election into a referendum on Mr Blair and his slipperiness difficult.

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Political paraphernalia

Hot air

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Why political accessories are changing

Pop goes the foreign secretary

IN GENERAL elections past, the political temperature of a British street could be taken by looking at the windows. Candidates' posters—blue for the Conservatives, red for Labour, orange for the Liberal Democrats—marked the positions of rival camps more precisely than any voter database. But allegiances are less obvious this year. Particularly in Labour-held areas, there is often little sign that an election is about to take place.

“People don't want to parade their political preferences any more,” says David Heyes, who is defending his seat in Ashton-under-Lyne. Political cynicism, unmoving opinion polls and flaccid national campaigns are partly to blame for the lack of colour in the constituencies. But a bigger reason is that the focus of campaigning has moved from the street to the telephone and the letterbox.

Better data management by the major parties means that potential voters can be identified and targeted more accurately than in the past, and from a greater distance. Printing is cheaper and faster; more importantly, digital presses can run off messages aimed at specific voters. The results can appear devious. Humphrey Malins, a Conservative candidate in Surrey, produced one leaflet, in English and Urdu, that touted his record of helping with visas. But another leaflet advertised the party's tough anti-immigrant line. “My local literature is intended to be very local,” Mr Malins explained.

Like so many political innovations, this is an American import. Greg Dewar, a political marketing consultant who has worked for several Democratic candidates, says that direct mail has become the best way of communicating with voters—a lesson that, as he admits, Republicans have learned especially well. The effect on old-style political paraphernalia has been the same as in Britain. As American campaigns have gone postal (and, much more tentatively, online), buttons and lawn signs have disappeared.

Oddly, one traditional tool has survived the winnowing: the campaign balloon. Labour candidates, in particular, can often be found lurking outside school gates handing out balloons and “Dear Parent” letters

to children. Lawrie Quinn, who is campaigning in Scarborough and Whitby, remembers organising only two such events during the 2001 election campaign. He has done 14 so far this year, and makes sure always to carry a few spare balloons in his back pocket, just in case. The idea is to reach young women—some of the main beneficiaries of Labour largesse, but also some of the greatest gripers against Tony Blair—through their less politically jaded offspring.

Such is the theory, anyway. At a recent school-gate event in Putney, a west London constituency, children were delighted to accept helium-filled propaganda. But the warmth of the day meant that the little nippers got only a few yards before a bang and a howl of anguish announced the beginnings of political discontent.

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The Church of England

Who're you calling naive?

Apr 28th 2005
From The Economist print edition

The Archbishop of Canterbury takes on Adam Smith

Get article background

THIS week Gordon Brown, the chancellor of the exchequer, called for a challenge to the Church of England's teaching on the sufficiency of the scriptures for salvation in the light of new evidence from non-canonical texts. His audience of economists and business leaders responded enthusiastically.

No, of course he didn't. But he ought to, if he is to follow the example of the nation's top spiritual leader, the Archbishop of Canterbury. This week, at a service to celebrate the 60th anniversary of Christian Aid, a charity, Rowan Williams called for a challenge to “naive confidence in free trade”. Free trade, he said, “forces choices on vulnerable countries, whose effects may be in the short to medium term very costly indeed to a whole generation of workers, to the environment, to political stability.”

Leaving aside the question of the short, medium and long-term consequences of protectionism to vulnerable countries, this particular repository of naive confidence in free trade believes that the archbishop would do well to hearken to the advice of his own top spiritual leader. “Render therefore unto Caesar the things which are Caesar's; and unto God the things that are God's,” said Jesus, thus making clear his belief that church and state should stick to their core competences.

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Nuclear energy

The atomic elephant

Apr 28th 2005
From The Economist print edition

Britain is being softened up for a revival of nuclear power

Get article background

NUCLEAR power has long been the ugly sister of the British electricity industry. The country's last nuclear power station was built, amid fierce opposition, in 1994. When Labour came to power in 1997, it claimed it saw no need for any more. But that may be changing. Ministers, MPs and advisers have been dropping hints that new nuclear power stations may be on the cards. It was recently reported that Tony Blair wanted a public debate on the idea as soon as the general election was out of the way.

Oddly for an industry with such a poor environmental image, it is greenery that lies behind this revival in interest. Despite environmentally-friendly pledges by the government, greenhouse gas emissions have risen by 2.1% since 2002. Nobody believes that the government will meet its self-imposed targets, and the problem is going to get worse. Britain currently generates about a fifth of its electricity from carbon-free nuclear power plants. The government reckons that reduces emissions by 12m-24m tonnes a year, or 7-14% of the total. But the nuclear plants are old, and by 2023 there will be only one left. If they are replaced with fossil fuel plants, emissions will rise dramatically.

The government's current policy on power generation is to provide subsidies for renewable energy, which in practice has meant building wind farms. But they are expensive, unreliable and, increasingly, unpopular with the locals. All of which makes new nuclear plants look like a good idea.

Not everybody is convinced. Nuclear power has always been expensive, say the doubters, pointing to the industry's lamentable record of cost overruns, public bailouts and bad management. Liberalised energy markets have made firms reluctant to invest in expensive and risky nuclear plants, especially after the near-collapse of British Energy two years ago. Gas-fired generation has much lower capital costs and build time, and is therefore a more attractive investment.

But, says Malcolm Grimston of the Royal Institute of International Affairs, that may be changing. Consolidation in energy markets is one reason, since bigger companies are better able to tolerate risk. Unlike nuclear stations, fossil plants are sensitive to changes in fuel prices, which have risen sharply in recent years. And, says Mr Grimston, the introduction of carbon-trading schemes should make fossil fuel generation more expensive, since companies will be forced to internalise the cost of their waste, something the nuclear industry already does—at least in theory.

In any case, the nuclear industry says technology has made things much cheaper: the latest reactors, it says, generate only a tenth as much waste as the old ones, are cheaper to build and run, and safer to boot. The Royal Academy of Engineering (RAE) reckons that the new designs could generate energy for as little as 2.3p per kilowatt-hour (including construction and decommissioning costs), compared with 2.2-3.2p for fossil fuels and 3.7p for wind power. Research from Oxera, a consultancy, suggests that it would cost £4.4 billion ($8.4 billion) of public money to meet Britain's emissions targets with nuclear power, and £12 billion with wind. Doubters point out that the RAE's figures are based on a design that has never been built, and that there is still no agreement on how to deal with waste.

Yet some countries are enthusiastic. The Finns approved construction of a reactor in 2002, the first in western Europe for over a decade. The noises from the government suggest that Britain may follow.

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Campaign diary

On the trail

Apr 28th 2005
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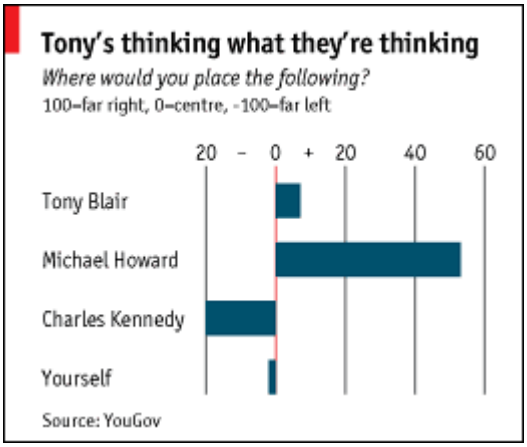
The fiercely contested way-out vote

"We're not as light-hearted as the Official Monster Raving Loony Party—we're more political and more sarcastic." Lord Biro of the Church of the Militant Elvis Party distances himself from the competition in the *Derby Evening Telegraph*.



Meet the professional

John Prescott, the deputy prime minister, chats with Mark Choueke, a reporter from the *South Wales Argus*:
Prescott: Where do they get these amateurs from? You're an amateur mate, go get on your bus, go home.
Choueke: Are you too big for the regional press now John?
Prescott: Bugger off. Get on your bus you amateur.
Choueke: Is my interview over John? Because if that's all you've got to say, that's what will go in the paper.
Prescott: Ooohh, I'm scared.

Style section

"I am the only MP to mention iPods, the phrase 'minger' and the stylish wearing of jeans in my election literature." Derek Conway, Tory candidate in Old Bexley and Sidcup, is so cool he's hot.

Equal schmequal

"We do not accept the absurd superstition—propagated for different though sometimes overlapping reasons by capitalists, liberals, Marxists and theologians—of human equality." Back to basics with the British National Party.

Education, education, education

"I know from speaking to teachers and parents that Labour has really delivered for our young people. Spending on Education has went up 52%." Campaign literature for John Robertson, Labour candidate for Glasgow North West.

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Business and the election

Sweet talk, sour mood

Apr 28th 2005
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Business gripes it will pick up the tab after May 5th

COMPANIES don't have votes, so they should be flattered at the attention they receive in elections. On April 25th, Gordon Brown, the Labour chancellor of the exchequer, and Michael Howard, the Conservative leader, addressed the annual conference of the British Chambers of Commerce (BCC). Both used the occasion to spell out why their party deserved the support of executives.

Mr Brown made much of his record in the past eight years, claiming that Labour reforms had delivered economic stability and prosperity. He signalled there would be no rush to join the euro, a policy for which enthusiasm has waned in business circles. He restated his commitment to tackle the burden of regulation, a particular bugbear of executives.

Mr Howard contrasted private-sector Britain, where people, he said, were struggling to make ends meet, with bureaucratic Britain, where money was no object. Mr Brown, he argued, was making the economy more and more like those in continental Europe. Promising a deregulatory drive, he said he would revive the opt-out from the EU's “job-destroying” Social Chapter of the Maastricht treaty.

A poll of finance directors by MORI in early April found that a majority thought the Conservatives had the best policies for business. However, it is almost certainly Mr Brown that business will have to reckon with after the election. And despite his sweet-talking, the chancellor has not offered business the pledge it really wants—that it will not be clobbered with higher taxes.

This has left employers in a sour mood. Labour has wooed business before with special manifestos in the 1997 and 2001 elections. Each was followed by a big rise in business taxes. “Business has had taxation up to here,” says Sir Digby Jones, director-general of the Confederation of British Industry (CBI). There will be “amazing resistance” from business, he predicts, if it is targeted again after the election.

According to the CBI, business has paid an extra £43 billion in Labour's eight years in power as a result of tax measures. However, the Institute for Fiscal Studies (IFS) says the additional cost was actually £30 billion. And whereas the CBI says that business paid £5.5 billion in extra taxes in 2004-05, the IFS says it paid an additional £900m. In that year, corporation-tax revenues totalled around £34 billion.

The difference between the two sets of figures arises mainly because the IFS excludes employers' national-insurance contributions, which Mr Brown raised in his 2002 budget. The tax increase, which took effect in April 2003, is raising £4 billion a year. However, the IFS excludes it on the grounds that employers eventually pass this tax increase on to workers by holding down wages. Instead it focuses on corporate-income taxes, where much of the extra burden has come from temporary measures. A windfall tax on privatised utilities raised £5 billion. And a change in the payments system boosted Treasury revenues by £9 billion in the four years to 2002-03.

That has still left business paying a lot of extra tax in Labour's first two terms. On regulation, the other big worry, its case appears even stronger. The BCC has calculated that the cumulative cost of new regulations between 1998 and mid-2005 comes to £39 billion. “Much of this can be seen as covert taxation,” argues Tim Ambler of the London Business School, “since the regulations are forcing business to pay for social change desired by government.”

On the brighter side, a recent international comparison by the OECD shows that Britain's regulatory barriers to competition in product markets are the second lowest in developed economies (Australia just wins). However, other countries have been gaining ground. “Any loss of regulatory advantage is a worry,” says Ian McCafferty, the CBI's chief economist, “because that advantage has made up for

deficiencies like a poor transport system and inadequate skills.”

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Prime ministers' pay

Not up to the job

Apr 28th 2005
From The Economist print edition

Britain's prime ministers find most of their rewards nearer heaven

Get article background

ON MAY 5th, shareholders in Britain Inc will vote for their next chief executive. Apart from the sheer kick of running a country, what's the pay like for the job? Lousy, according to a study of European political leaders by Hay Group, a human-resources consultancy.

In terms of his (for such it will be) take-home pay, Britain's next prime minister will earn £178,900 a year. This is 4% less than Gerhard Schröder, the German chancellor, but 63% more than Costas Karamanlis, the prime minister of Greece (see chart).

Top political jobs, however, vary according to the size of the country (how many customers for your services), its geopolitical significance (how much travel involved) and its internal structure (how much work can be fobbed off to others). Taking such factors into account, and the element of job-sharing in countries such as France that have an executive president and a prime minister, Hay has graded the size of the top political jobs around Europe and found that of the British prime minister to be the biggest of them all, in a class of its own.

The consultants then asked what leaders with jobs of that size might expect to earn in the private sectors in their own countries. And here Britain's prime minister comes off badly, earning only 8% of what he could expect heading a big company like BP or Unilever. Norway's prime minister, Kjell Magne Bondevik, earns 31% of what he could expect for a comparable private-sector job in Norway. On this ranking, only Poland's leader does worse than Britain's.

Political leaders can hope to catch up on their forgone earnings in later life, after they have retired from office. A public-sector pension (defined in Dr Johnson's dictionary as “pay given to a state hireling for treason to his country”) is generally generous, and former leaders can expect to be in demand from publishers and on the lecture circuit. Sir (since last weekend) John Major, Britain's most recent ex-prime minister, tours the world in a private jet with a full-time chief-of-staff, lecturing to the likes of the American Dental Association and the Tax-Free World Association on timeless subjects such as “The Changing World”. For that he is said to get around $50,000 a go. In the unlikely event that Tony Blair has to move out of Downing Street next week, he will in at least one sense be better off.

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Independent schools

Status envy

Apr 28th 2005
From The Economist print edition

Are posh schools charities? Not necessarily

Get article background

WHY should the schools that educate the richest children in the country benefit from the tax breaks that come from charitable status? Scottish lawmakers are significantly sharpening their country's charity law, in the hope of doing down the most expensive private schools.

That sounds ominous for independent schools south of the border. Labour left-wingers tried and failed to toughen a new charity law being debated in the last parliament, which let private schools in England and Wales continue with business as usual. The government preferred to woo the private schools than bash them, partly to encourage them to help improve state schools, partly because of the legal difficulties in singling out one particular kind of charity for loss of privileges, and partly in order not to alienate middle-class voters.

But that bill ran out of time in the week that Parliament dissolved. Independent schools in England now fear that after the election, especially if Labour has a smaller majority and a stronger block of left-wingers, the government will find it harder to hold the line on a law that seems to benefit the few at the expense of the many. “It could be tuition fees and fox-hunting combined”, says one private-school lobbyist, referring to the two biggest backbench revolts of the government's previous term.

News from the devolved Parliament in Scotland sharpens those fears. An amendment moved by John Home Robertson, a (privately-educated) MSP, in the charity bill's committee stage, places a specific duty on the Scottish charities regulator to examine whether a charity is charging “unduly restrictive” fees. The top Scottish boarding schools, such as Gordonstoun (which educated Prince Charles) or Fettes (Tony Blair's old school) charge fees of more than £20,000 a year. That is roughly what an average Scottish household spends in a year on everything. Mr Home Robertson says he wants private schools to lose their charitable status.

There is still plenty of argument ahead. Independent schools argue that they already offer bursaries and scholarships for poor children (although Scottish schools do less on this front than their English counterparts). High boarding fees reflect the cost of accommodation. And privately educated children save the taxpayer a lot of money. Their opponents say that private education entrenches class division and deprives the state system of able children and supportive parents.

There are two likely results of abolishing charitable status. One would be a whopping capital-gains-tax bill—enough to put most schools out of business overnight, causing a political and legal storm that even Labour left-wingers might flinch at. Secondly, schools would pay corporation tax on their surpluses. That would lead to a rise in fees of between 4% and 8%. It would also sharply reduce independent schools' fundraising efforts—which these days are directed largely towards bursaries. In short, poor children would lose out and hard-pressed middle-class parents would suffer more, while the rich would hardly notice.

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Northern Ireland

Impending doom

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Wipe-out of moderates expected

NORTHERN IRELAND is the only bit of Britain in which this election is expected to make a big difference. Leading bookmakers and local election-watchers are laying bets that May 5th will finish off the two parties—the moderate nationalist SDLP and the moderate unionist Ulster Unionist Party (UUP)—that have done most to bring peace to the place.

A third of Northern Ireland's 18 seats may change hands. Three are almost certain to, the bookies say, and another three highly likely to. The UUP went into this campaign with five seats: they could come out with two, one or none. According to a big recent poll, the moderate UUP, which used to be Northern Ireland's biggest party, is lagging the extremist Democratic Unionist Party by 16% to 28%. The SDLP may lose two of its three seats.

The leaders of both moderate parties are at risk. In both cases, their survival may depend on votes from the other side of the religious divide. David Trimble, former first minister of the now-suspended Northern Ireland assembly, is fighting for his political life in Upper Bann against a relative newcomer, the local DUP mayor, David Simpson. Catholic votes could be crucial. The SDLP leader, Mark Durkan, is struggling to hold the Foyle seat vacated by his predecessor, John Hume, who shared the Nobel Peace Prize with Mr Trimble seven years ago. Protestant votes might make the difference.

Activists from Sinn Fein, the IRA's political wing, have poured into the constituency, and Mr Durkan is a poor public performer who lacks Mr Hume's subtlety and persuasiveness. Still, his opponent, Mitchel McLaughlin, is a second-rank republican figure, so Mr Durkan looks likelier to survive than does Mr Trimble.

In 2001, Catholics in Mr Trimble's constituency helped him against the DUP because he was sharing power with the SDLP as first minister. Now that the DUP is in the ascendant, they see him as irrelevant.

Mr Trimble has been steadily ground down by opponents of power-sharing inside his party, and by the adroitness of the still acerbic Ian Paisley, 79 this month but apparently restored to health after a period of illness. Mr Trimble is a stubborn fighter, and is said to be determined not to step down as party leader even if he is defeated. But if his party's two remaining seats are North Down, held by Lady Sylvia Hermon, and South Antrim, held by David Burnside, he may not have much choice. Mr Burnside is a bitter enemy of his.

The SDLP has tried, but failed, to capitalise on two recent embarrassments for Sinn Fein—a £26.5m bank robbery in Belfast last December that was blamed on the IRA, and the murder on January 30th by drunken IRA men of a Belfast Catholic in a pub brawl. There was also the discovery in the Republic of a major money-laundering operation. Nationalist voters still seem inclined to give Gerry Adams, Sinn Fein's leader, the benefit of the considerable doubt that now clouds his reputation as genuine peace-maker in London, Dublin and Washington.

To outsiders, that must seem the strangest aspect of Northern Ireland's election, but in the province, it makes perfect sense. The peace process may be frozen, but each community wants its toughest champion in the field, if only to stonewall.

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Bagehot

Not as nice as they look

Apr 28th 2005
From The Economist print edition

The Liberal Democrats present themselves as the party of conscience. Yeah, right

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IN HIS election blog, Sir Bob Worcester, an opinion pollster, reports receiving a call from the *New Statesman*, a left-wing weekly. The man from *New Statesman* says they can't find anybody who's going to vote Labour. Try looking outside your own offices, suggests Sir Bob, whose MORI polls show Labour in a comfortable lead.

Although the polls suggest that Labour's professional middle-class support is holding up better than the Tories' (the anti-immigration stuff makes them feel queasy), that's not the way it seems at dinner parties. Among Britain's leftish liberal elite, it's a struggle to find anyone these days who doesn't see it as a badge of honour to declare their loathing for Tony Blair and their intention to vote Liberal Democrat.

Plainly, the Lib Dems do not have a hope of forming an official opposition, let alone a government. They trail the Tories by at least ten points in the polls and are still a very long way from the kind of breakthrough that, in Britain's brutal first-past-the-post system, would give them more than 100 seats. But that does nothing to reduce the appeal of their comfort-blanket politics to many. Rather the reverse.

A vote for the Lib Dems allows one to register condemnation of the illegal Iraq war and of Labour's cowardly erosion of civil liberties; opposition to the crippling debts with which tuition fees will burden hard-working students; enthusiasm for the common sense solution to the public services of allowing professionals like oneself to get on with the job of running those services, untramelled by market disciplines or targets imposed by a bossy government. And what better demonstration of one's social conscience than a willingness to tax the highest earners more, safe in the knowledge that there is no chance that this policy will actually be implemented?

What's more, as the Lib Dems themselves keep saying, a vote for them does not even carry much risk of electing a Tory government by accident. Based on the current polls, if the party were to take a further five points directly from Labour, Mr Blair would still be back but, with an overall majority of around 60, satisfactorily humbled.

In other words, for a lot of people, a vote for the Lib Dems comes as near to a political free lunch as they are likely to get. That says quite a lot about what's right with the Lib Dems, but also quite a lot about what's wrong with them.

On the plus side, they genuinely deserve credit for their defence of civil liberties, for their refusal to get into a bidding war about who can come up with the toughest immigration policies and for their reluctance to pander to hysteria over crime. Those positions may well have cost them crucial votes in closely fought Tory marginals. Because Iraq is a much more potent issue for the Lib Dems than for the Tories, Charles Kennedy, their leader, may be allowing Michael Howard to do his dirty work for him in accusing Mr Blair of having lied in taking Britain to war. But, he still deserves a small pat on the back for declining to join Mr Howard in his deliberate coarsening of political debate.

But that's about as good as it gets. For a leader his party regards as a prized asset, Mr Kennedy has not distinguished himself in the election campaign. His bumbling performance at the launch of his party's manifesto when he struggled to remember who would be affected by his plans for a local income tax would have been terminal for either Mr Howard or Mr Blair. Mr Kennedy seems to think his intellectual sloppiness makes him a more normal person than the political obsessives who lead the two main parties—a poor excuse for a man who has spent his entire adult life as professional politician.

Mr Kennedy's warm welcome this week to Brian Sedgemore, a defector from Labour, was a good deal more troubling. He said of Mr Sedgemore, a maverick left-winger who first became a Labour MP in 1974 and who is now retiring, “It is not surprising that he finds himself at this election in greater sympathy with Liberal Democrat policies rather than those of Tony Blair's Labour Party.” It is hard to know whether this statement reflects worse on Mr Kennedy or Mr Sedgemore.

A new life for Brian

Mr Sedgemore, a Bennite rabble-rouser, was once described as deputy heckler to Dennis Skinner (another hard-left oddball). He is precisely the kind of character that the SDP (the party Mr Kennedy first joined and from which the Lib Dems evolved) was created to provide a refuge from. A vain loner who has never concealed his detestation of New Labour and all its works—particularly its electability—Mr Sedgemore is about as far from the political mainstream as it is possible to be.

Mr Sedgemore appears delighted to be joining a party that is well to the left of Labour. And in some ways it is. The Lib Dems' affection for high marginal rates of taxation, unreformed public services controlled by producer interest groups and a foreign policy with a strongly anti-American edge all sit comfortably with Mr Sedgemore's world view.

Where the Lib Dems fail to qualify as a party of the left is in their lack of interest in reducing poverty and inequality. The money raised by higher taxes is to be spent saving the middle classes from having to fork out for their children's university education and their elderly parents' long-term nursing care. As with the Lib Dems' policy to abolish council tax because of its impact on pensioners who own expensive houses, what seems to matter most to the Lib Dems is allowing people to keep windfall gains from high house prices and inheritance.

That reflects well on neither Mr Kennedy nor his latest recruit, the old socialist, Mr Sedgemore. But then being angry about Iraq takes a lot less effort than developing a coherent programme for making life better at home.

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Oil in troubled waters

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From The Economist print edition

Prices are sky-high, with profits to match. But looking further ahead, the industry faces wrenching change, says Vijay Vaitheeswaran

“THE time when we could count on cheap oil and even cheaper natural gas is clearly ending.” That was the gloomy forecast delivered in February by Dave O'Reilly, the chairman of Chevron Texaco, to hundreds of oilmen gathered for a conference in Houston. The following month, Venezuela's President Hugo Chavez gleefully echoed the sentiment: “The world should forget about cheap oil.”

The surge in oil prices, from $10 a barrel in 1998 to above $50 in early 2005, has prompted talk of a new era of sustained higher prices. But whenever a “new era” in oil is hailed, scepticism is in order. After all, this is essentially a cyclical business in which prices habitually yo-yo. Even so, an unusually loud chorus is now joining Messrs O'Reilly and Chavez, pointing to intriguing evidence of a new “price floor” of $30 or perhaps even $40. Confusingly, though, there are also signs that high oil prices may be caused by a speculative bubble that could burst quite suddenly. To see which camp is right, two questions need answering: why did the oil price soar? And what could keep it high?

To make matters more complicated, there is in fact no such thing as a single “oil price”: rather, there are dozens of varieties of crude trading at different prices. When newspapers write about oil prices, they usually mean one of two reference crudes: Brent from the North Sea, or West Texas Intermediate (WTI). But when ministers from the Organisation of the Petroleum Exporting Countries (OPEC) discuss prices, they usually refer to a basket of heavier cartel crudes, which trade at a discount to WTI and Brent. All oil prices mentioned in this survey are per barrel of WTI.

The recent volatility in prices is only one of several challenges facing the oil industry. Although at first sight Big Oil seems to be in rude health, posting record profits, this survey will argue that the western oil majors will have their work cut out to cope with the rise of resource nationalism, which threatens to choke off access to new oil reserves. This is essential to replace their existing reserves, which are rapidly declining. They will also have to respond to efforts by governments to deal with oil's serious environmental and geopolitical side-effects. Together, these challenges could yet wipe out the oil majors.

The ghost of Jakarta

But back to the question of why prices shot up in the first place. The short explanation is that oil markets have seen an unprecedented combination of tight supply, surging demand and financial speculation. One supply-side factor is OPEC's clever manipulation of output quotas. Back in 1997, at a ministerial meeting

in Jakarta, the cartel decided to raise output just as the South-East Asian economies were hit by crisis, sending prices plunging to $10. Desperate to engineer a price rebound, Saudi Arabia targeted inventory levels: whenever oil stocks in the rich countries of the OECD started rising, OPEC would reduce oil quotas to stop prices softening. It worked like a charm.

Another supply-related factor has been the shortage of petrol in the American market. Over the past year or two, prices have spiked as refineries have been unable to meet local demand surges.

Supply concerns have also played a part in the so-called fear premium. The nerve-wracking uncertainty before the invasion of Iraq, and the terrible terrorist attacks in Iraq and Saudi Arabia afterwards, have pushed up prices to a higher level than the fundamentals would seem to justify. Other supply worries arose from the crackdown by the Russian president, Vladimir Putin, on the oil company Yukos, and from civil strife in Venezuela and Nigeria. Some pundits think the fear premium may have added $7 to $15 to the cost of oil on futures markets in New York and London.

Adding to the froth has been the sudden influx of new kinds of financial investors into the oil market. Some are merely chasing the huge returns recently offered by oil. Big equity funds, fearful of what $100 oil could do to their holdings, might invest in oil futures at $40 or $50 as a cheap insurance policy. OPEC ministers love to blame hedge funds for high oil prices, but they are only partly correct. The “net long” positions (that is, their speculative bets on higher prices) held by such funds peaked in March last year and dropped through 2004, but oil prices kept rising regardless.

Phil Verleger, an energy economist associated with the Institute for International Economics in Washington, DC, reckons that the cartel itself may be to blame for the speculation: by declaring its intention to prop up prices, first at $30 and now at $40, “OPEC has given Wall Street a free put option” (because investors believe the cartel will cut output to stop prices falling).

Supply constraints coincided with a huge boom in oil demand. Global oil consumption last year increased by 3.4% instead of the usual 1-2%. Nearly a third of that growth came from China, where oil consumption rocketed by perhaps 16%. One senior European oil executive claims that, in contrast with the embargoes and supply-driven price rises of the past, “This is the first demand-led oil shock.”

And it was not just China that used a lot more oil. India's oil consumption too leapt last year, and America's was quite robust. In fact, despite $50 oil, global oil demand in 2004 grew at the fastest rate in over 25 years. The global economy also grew at a scorching pace. That appeared to defy the conventional wisdom that high oil prices drag down demand, and prompted the question whether oil prices even matter any more (see article).

No safety net

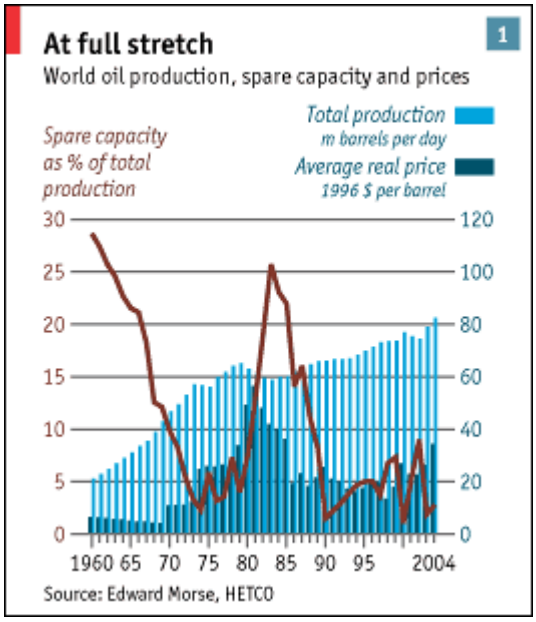
So was it supply or demand that pushed prices above $50? Both matter, of course, but neither provides a complete explanation. What is new, and what has set the market alight, is the lack of spare production capacity.

In a normal commodity market, no producer in his right mind would keep lots of idle capacity. But that is precisely what several OPEC countries have been doing with their oil wells for years. Saudi Arabia, in particular, has maintained a generous buffer that it has used to prevent the market from overheating during unexpected supply interruptions. For example, during the Iran-Iraq war, the first and second Gulf wars and Venezuela's political crisis of 2003, oil exports from the countries concerned were disrupted, but the Saudis immediately started pumping more oil from their idle fields and single-handedly prevented a price surge and possibly an oil shock. This vital buffer, argues Robin West of PFC Energy, a consultancy, helps Saudi Arabia to act as the “central bank of oil”.

Alas, the buffer has been in decline for some years, because OPEC has not been investing sufficiently to keep pace with growing demand. As a result, global spare capacity last year dropped to around 1m barrels per day (bpd), close to a 20-year low. Almost all of this was in Saudi Arabia. In short, the market for the world's most essential commodity now has no safety net to speak of.

In such a tight market, argues Edward Morse of HETCO, an energy-trading company, even relatively minor changes in supply and demand can get magnified into unnerving price spikes. In the past, there has often been an inverse relationship

between spare capacity and oil prices (see chart 1). The IMF has recently told OPEC that it must increase global spare capacity to 3m-5m bpd in order to ensure “the stability of the world economy.”



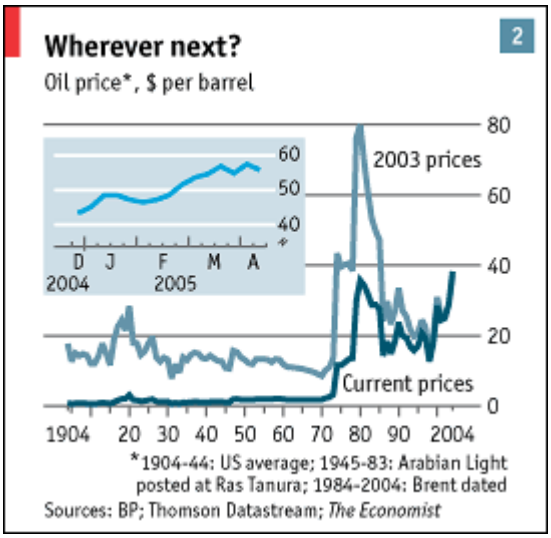
More worryingly, Mr Morse believes the problem extends well beyond just spare production capacity. He points to the tightness in markets for oil rigs, tankers, petroleum engineers, refinery capacity and various other bits of the oil value chain, and concludes that the problem is systemic: “The illusion that oil is in perennial oversupply has led to two decades of underinvestment in the oil industry. The world has been living off the legacy spare capacity built up many years ago.”

Given today's high prices, surely the market will soon enough provide the necessary new infrastructure? Probably not, for two reasons. The first is that the world seems to be coping rather well with today's shockingly high prices, so perhaps they have to persist for longer or rise higher still before investors are stirred into action. The second reason is the bitter memory of oil at $10 a barrel.

OPEC countries are unlikely to rush to build lots of spare capacity because they are worried that another price collapse may follow. PFC Energy observes that when the oil price hit $55 late last year, spare capacity was less than 15% of the 8.7m bpd peak reached in 1985, and notes: “OPEC national interests do not lie in creating large capacity surpluses that have existed for most of the history of oil.”

The western oil majors are even more terrified of another price collapse, and are keeping a tight rein on their capital expenditure. Projects are typically “stress-tested” for profitability at $20 a barrel or below. Some argue that Big Oil is being too cautious. But nobody thinks that spare capacity will ever return to the gold-plated levels of the mid-1980s.

Still, the crunch may ease if the Saudis rebuild their buffer. It may be in their interest to do so. For most of the OPEC countries, it makes sense to try to maximise prices in the short term because their reserves of oil are relatively small. The Saudis, by contrast, are sitting atop at least 260 billion barrels of proven oil reserves, far more than Libya, Venezuela, Indonesia and Nigeria combined. Even at current production levels of around 10m bpd, which make them the world's top exporters, they have enough oil to pump for most of this century. They will not want prices to stay too high for too long, or else investors will put money into non-OPEC oil or alternative fuels.



The desert kingdom's rulers also remember the lessons of the 1970s oil shocks, when the biggest losers were not consuming economies (which eventually adapted to higher prices) but the petro-economies of OPEC. Ali Naimi, the Saudi oil minister, rejects the idea that his country wants prices to rise ever higher: “We are misunderstood: we thrive on the economic growth of others, which is concomitant with energy demand.” That is why the Saudis have long acted as the voice of moderation within OPEC, resisting calls

from price hawks such as Libya, Iran and, since the rise of Mr Chavez, Venezuela to squeeze consumers.

Indeed, at the most recent formal OPEC meeting, held in Iran on March 16th, the Saudis in effect bullied reluctant cartel members into trying to calm prices down. They won agreement for a rise in oil production quotas to boost global oil inventories that looked like a reversal of the cartel's established policy of keeping OECD inventories tight and prices high.

Developments within Saudi Arabia seem to confirm that the buffer is being rebuilt. Saudi Aramco, the state-run oil giant (and the world's largest oil company), has recently launched its biggest expansion programme in many years. Outside contractors report a surge in rig counts and drilling activity as the country increases spare capacity to its stated goal of 1.5m-2m bpd. But even if Saudi Arabia is willing to re-establish an adequate buffer, this could take years. Will prices stay high until then?

For much of the late 1980s and 1990s, the world enjoyed low and stable oil prices between $20 and $30. Now oil prices have shifted to double that level, apparently without causing much pain. OPEC ministers and Wall Street analysts talk of a new “price paradigm”. At first sight, there seems to be something in that. In the past, contracts for delivery of crude months or years ahead (what Alan Greenspan, the chairman of the Federal Reserve, has poetically called “distant futures”) usually stayed low and stable even if the spot price shot up because of some short-term disruption. But for the past couple of years the distant futures have tended to shoot up too. The markets clearly expect that higher prices are here to stay.

Political scientists point to the bloated welfare states in most OPEC countries which will require higher oil prices to balance budgets and avoid social unrest. Some industry analysts see a new “floor” price of $30-40, if only to persuade oil firms to splash out on necessary investments upstream. Matt Simmons, a prominent energy investment banker, thinks that in view of rising input costs (for such things as oil rigs, steel pipes, tankers and so on) the oil price “needs to go way, way up”.

But some of this may be wishful thinking. In reality, oil companies have little control over prices. OPEC ministers are better placed, but even they cannot reliably control the oil market, as the industry's history of booms and busts clearly shows. Saudi Arabia's Mr Naimi seems to be arguing for moderation when he says that working out a fair price for oil is “a moving target: it needs to be comfortable for both consumers and producers, and at a level where investors will put money in to grow this industry.” But it is quite possible that prices could drop lower even than Mr Naimi would wish.

One factor is potential weakness in demand. There is much talk about Chinese demand changing all the rules, but that is just plain wrong. China's share of world oil consumption is still under 8%, far smaller than America's at 25%. Goldman Sachs, an investment bank, estimates that even assuming robust growth, China will remain a smaller oil consumer than America for decades to come.

And the growth in China's oil demand of nearly 16% last year is unsustainable. For one thing, there are simply not enough cars in all of China to guzzle that much oil. Much of the 2004 rise was related to the country's overheating economy and is unlikely to be repeated. For example, shortages of cheap coal led to the use of pricey fuel oil or dirty diesel for electricity generation; as bottlenecks in the coal system ease, that oil use will disappear. Over the past two years, as the country has developed its oil infrastructure, it has needed to fill pipelines, storage tanks and the like, but these were one-off purchases. The International Energy Agency (IEA) says that in January and February 2005, Chinese oil demand rose by only 5.4% on the same period in 2004, less than a quarter of the rate a year earlier. And if China's banking sector or its overall economy takes a knock, oil consumption is bound to be hit too.

Follow that oil price

On the supply side, too, things may ease up. Julian West of CERA, an energy consultancy, has compiled a list of all of the oil projects, led by both government companies and by private firms, that are due to come on stream over the next few years, “all found, all commercial, and all economic at half today's price.” He calculates that this “river of supply” could lead to a dramatic net increase in global oil production, with 2007 perhaps seeing the largest rise in production capacity in history. By 2010, this might add 13m bpd to the 2004 total of 83m bpd. Not everyone agrees with his assessment, and Mr West himself cautions that geopolitics could choke off this pending supply, but otherwise “the supply problem in two to four years will be too much oil.”

The financial markets offer another possible route to a sharp fall in oil prices. Pension funds have usually shunned commodities in the past, but in the past year or two they have poured tens of billions of dollars into securitised investments in oil, hoping for returns above those they can get on the anaemic stockmarkets. Mr Verleger worries that they have now developed a herd mentality reminiscent of the internet boom. As returns inevitably decline over time, the herd may turn tail and prompt a price collapse. In short, despite China's undeniable thirst and the shortage of global spare capacity, the oil-price boom may yet prove a bubble.

Volatile substance

Aramco's boss, Abdallah Jumah, sums it up: “Where the oil price goes, nobody knows.” He wishes it were otherwise. “The key is stability so we can plan. Oil investments take a long time to come to fruition.” His boss, Mr Naimi, argues that “oil is simply too vital a commodity to be left to the vagaries of the marketplace.” But even Saudi Arabia cannot guarantee oil-market stability, especially with its buffer so depleted. Indeed, the only sensible thing anyone can say about oil prices today is that they are unlikely to remain stable. A terrorist attack on Saudi oil infrastructure could send them past $100; a financial-market crash could push them below $10.

That uncertainty creates enormous problems for the western oil majors. Big Oil has never been much loved, but since OPEC's rise in the 1970s the majors have actually been the consumer's best friend, because their success at developing non-OPEC oil has restrained the cartel's market power. So it is worrying that their economic health is not as robust as it appears.

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Not so shocking

Apr 28th 2005
From The Economist print edition

Does the oil price matter any more?

HOW is it that oil prices have been able to shoot from $10 a barrel to over $50 without triggering an economic shock? The conventional reckoning is that every $10 hike in the oil price will knock half a point off global GDP growth—and yet the rise to $50 seemed to make little difference to the global economy last year. Oil is priced in dollars, so the steep dollar depreciation in recent months should have helped the European Union. Yet despite that boost, the euro-zone countries grew by only 2% last year, whereas America, which was fully exposed to the oil-price hike, grew at 4.4%. China, with growth of around 10%, was in a class of its own.

Ken Rogoff, a professor at Harvard and former chief economist of the IMF, argues that the “world really did not have a clear picture” of the relationship between oil and GDP. He now thinks that a gradual rise to an oil price of $80 “would not present any great difficulties for the global economy”. If it happened over five or ten years, consumers would adjust by becoming more energy-efficient, using new technologies and perhaps even re-thinking their transport arrangements.

The recent price rise coincided with low global inflation and strong demand-led growth, which meant it was easily absorbed. In contrast, the 1970s oil-price hike came at a time of high inflation, wage and price indexation and economic malaise. Mr Rogoff argues that the world's central banks have also become much more credible inflation-fighters, so oil-price rises have not been feeding through to higher interest rates.

Another important factor is that the OECD countries have become much less energy-intensive, thanks to the shift from manufacturing to services. America, for example, uses only half as much oil per unit of GDP as it did 30 years ago. In value terms, oil's share of OECD commodity imports plunged from 13% in the late 1970s to 4% in the late 1990s.

When the pips start to squeak

So does that mean the oil price does not matter any more? Not quite. Some economists now argue that this relationship is asymmetrical. A rise from $10 to $20, or $40 to $50, may not cause much harm, but further rises, even if they are quite modest in percentage terms, may become increasingly damaging, especially if they happen quickly.

In fact, argues Fatih Birol, chief economist of the International Energy Agency, present price levels may already be dampening the current cyclical upturn. In particular, they may be hurting the world's developing countries. Many poor countries are more dependent on imported oil and use energy far less efficiently than do rich countries as they make a dash for manufacturing-led growth. Economists are still trying to make sense of the “non-shock” of 2004, but some lessons are already clear. First, the world's utter reliance on petroleum for transport still leaves it highly vulnerable to an oil shock at some price. That, argues Mr Rogoff, is reason enough for America, the world's biggest oil consumer, to impose a carbon tax: “Either we raise the price of oil, or OPEC will.”

Second, comparing prices in absolute terms can be misleading, because over a period of time inflation can make a big difference. In today's money, the oil price actually topped $80 a barrel during earlier oil shocks. So in the end the oil price is still important: it's just that $50 ain't what it used to be.

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Global or national?

Apr 28th 2005
From The Economist print edition

The perils facing Big Oil

Rex

Lord Browne: one of the opportunity-poor

ONE day in February this year, something extraordinary happened in the oil patch. Buoyed by news that Exxon Mobil had earned a whopping $25 billion in profits last year, punters sent the company's market capitalisation shooting past $400 billion. The stodgy “old economy” company created by the merger of two descendants of Rockefeller's original Standard Oil empire became the most valuable company in the world, topping such icons of the post-modern age as Wal-Mart, Microsoft and GE.

This was but the latest sign that the private oil majors are enjoying a golden age. A little earlier, Royal Dutch/Shell, shrugging off an accounting scandal about the misreporting of oil reserves (see article), had posted the highest annual profits in British corporate history. On both sides of the Atlantic, the majors have so much cash in hand that they are busy shovelling it back to shareholders. Douglas Terreson of Morgan Stanley, an investment bank, who correctly predicted the wave of mergers in the late 1990s that created such “super-majors” as Exxon Mobil and Chevron Texaco, declares that “the industry is the healthiest it has ever been.”

Really? The profits are certainly breathtaking; and industry boosters argue that handing back cash to shareholders shows extraordinary capital discipline. Exxon Mobil is running its post-merger empire with about the same number of employees as were needed for Exxon alone a few years ago. The majors now deliver excellent shareholder value, which during most of the 1990s they did not.

But the chief factor behind today's profits is the surge in the oil price. And beyond that mountain of profits, the industry faces challenges that could ultimately wipe out some or most of these firms, once venerated as the Seven Sisters.

The biggest firms may be running out of good ways to invest their money. Oil bosses such as BP's Lord Browne and Exxon's Lee Raymond vigorously deny it, but it seems that the majors, though cash-rich, are opportunity-poor, just when their dwindling reserve base badly needs topping up.

Running to stand still

“Oil is a depleting asset. Every day, if we don't spend money and find more oil, we lose assets. Most oil companies, by doing nothing, will shrink to one-fifth today's size.” So says Steven Farris, president of Apache, an independent American oil-exploration firm.

That points to the biggest threat confronting the majors: the rundown of reserves. On IEA estimates, the world will need to spend $3 trillion over the next 25 years in order to meet expected global oil demand. Most of that money will go not to increase global supply, but merely to replace output from today's ageing fields (see chart 3).

Much of the majors' production today comes from large fields in places such as Alaska, the Gulf of Mexico and the North Sea, representing the first great wave of non-OPEC exploration. These fields saved the western oil companies after the nationalisations of the 1970s and helped to check OPEC's market power. But now they are entering a phase of rapid decline. Companies are spending ever greater amounts on fancy technologies and enhanced oil-recovery techniques. Field-maintenance costs are soaring.

The troubles in North America and the north Atlantic have sent the majors scrambling to explore far riskier oil prospects in non-OECD countries. Western firms are now looking for growth in such places as West Africa, the Caspian and the ultra-deep waters off Brazil. Their biggest hopes, however, are pinned on Russia, which opened up to private investment in oil under Boris Yeltsin and saw a surge in investment and production.

Unfortunately, this new wave of oil exploration is likely to prove trickier than the first. For a start, it usually involves technically complex oil formations that require lots of high technology and up-front capital expenditure. Moreover, the legal framework in some of the countries concerned can be unreliable. For example, Venezuela is now trying to change existing contracts.

Russia seems to have removed the welcome mat to outsiders of late. Investors liked to think that Vladimir Putin's destruction of Yukos, the country's biggest private oil company, supposedly for tax fraud, was a special case. Lord Browne, whose firm owns half of TNK-BP, the largest foreign oil presence in Russia, insisted last autumn that the political risk he faced in Russia was no greater than anywhere else. But in February this year the Russian government announced a ban on majority foreign participation in many new natural-resource concessions, and in April it presented TNK-BP with an arbitrary $1 billion tax bill.

Still, Russia sits atop only about 5% of the world's oil reserves. And even though at the moment it is cranking out nearly 10m bpd, roughly the same as Saudi Arabia, it will not be able to keep it up.

Hands off our oil

The biggest obstacle the majors face in replacing their reserves is the fundamental perversity of the oil business. Oil is the only industry in which the best and largest assets (in this case, oil and gas reserves) are not in the hands of the most efficient and best-capitalised firms (the western majors), but of national oil companies (see table 4). Two-thirds of the world's oil reserves are found in the Persian Gulf, where foreign firms are mostly unwelcome. Exxon may hold the highest stock valuation among listed firms, but it is dwarfed by Saudi Arabia's unlisted Aramco, whose oil reserves are 20 times larger—and off-limits to foreigners.

A chief rationale for the recent mergers was that only super-majors can afford to spend the sort of money that might help them bag various giant oil prospects. Morgan Stanley's Mr Terreson, an early champion of the super-major thesis, now concedes: “I guess that part of the thesis didn't work out as we planned. Bigger size has not produced bigger projects yet.” Still, he insists the mergers were not a mistake.

They may, however, have set up Big Oil for an even bigger fall in years to come. Many countries that were once the stomping grounds of the Seven Sisters have developed home-grown oil companies that, with help from western oil-service companies such as Halliburton and Schlumberger, have access to modern technologies. Some of these national oil companies (NOCs) are now bidding for oil and gas concessions overseas. They do not always play by the same rules as publicly listed companies, and sometimes they beat the majors at their own game.

Fu Chengyu seems the very model of a modern major's general. The chairman of the China National Offshore Oil Corporation (CNOOC), a partially privatised energy firm, likes to hold early-morning meetings at his modern headquarters in Beijing. He peppers discussions of corporate strategy with vows of “shareholder value” and “healthy returns on capital”.

But do not be misled by Mr Fu's western ways. He is a proud Chinese nationalist who believes that his country's resources are best cultivated by local companies like his, and roundly rejects the majors' argument that developing countries need them for access to technology and capital: “Technology I can get. Money

Oil's rich list 4

Top 20 oil companies, by reserves, 2003

		State ownership, %	m barrels
Saudi Aramco	Saudi Arabia	100	259,400
NIOC	Iran	100	125,800
INOC	Iraq	100	115,000
KPC	Kuwait	100	99,000
PDV	Venezuela	100	77,800
Adnoc	UAE	100	55,200
Libya NOC	Libya	100	22,700
NNPC	Nigeria	100	21,200
Pemex	Mexico	100	16,000
Lukoil	Russia	8	16,000
Gazprom	Russia	73	13,600
Exxon Mobil	US	-	12,900
Yukos*	Russia	-	11,800
PetroChina	China	90	11,000
Qatar Petroleum	Qatar	100	11,000
Sonatrach	Algeria	100	10,500
BP	Britain	-	10,100
Petrobras	Brazil	32	9,800
Chevron Texaco†	US	-	8,600
Total	France	-	7,300

*Now in effect controlled by government
†Does not include newly acquired Unocal

Source: *Petroleum Intelligence Weekly*

I have. But if you don't have reserves and production, nobody can help you."

Such swagger used to be limited to a small handful of NOCs in the Middle East, especially Saudi Aramco, but no longer. Indian and Chinese government oil executives are now spending billions of dollars on a global scramble for oil and gas to feed their booming economies. Behind Russia's clumsy crackdown on Yukos lies an audacious plan to turn the state-run Gazprom into a national oil and gas champion. In Venezuela, Hugo Chavez has installed political allies in key management jobs at PDVSA, the state oil monopoly, and now talks of forging a pan-Latin American "Bolivarian" oil company.

Why is resource nationalism on the rise? One explanation usually offered is "energy security", a woolly and much-abused notion. Since September 11th 2001, goes the argument, the energy world has been much riskier than it was during the go-go 1990s, when governments were largely content to leave it to the markets to match up supply and demand. Now, say strategists in big consuming economies such as China, countries need to lock in "equity oil" to have peace of mind.

Countries with lots of hydrocarbons, for their part, are increasingly clamping down on foreign or private investment. Amy Jaffe of Rice University, who has studied past oil nationalisations in Iraq and Iran, argues that these were driven as much by economics as by ideology. She worries that today's resource nationalism in places such as Venezuela and Russia could be more ideologically motivated.

There is just a chance that today's high-minded nationalists are merely opportunists taking advantage of high oil prices. One Chinese expert insists that companies heading overseas are just empire-building. Similarly, one Russian oil oligarch says that "perhaps some officials really want a national oil company, but this is mostly guys enriching themselves, wrapped in the national flag."

Oddly enough, the biggest losers from the rise in oil nationalism may be the citizens of countries blessed with hydrocarbons. Historically, where governments have played a prominent part in developing oil resources, energy firms have often turned out corrupt and inefficient. There are exceptions, of course: Malaysia's Petronas and Norway's Statoil, for example, are pretty well run. On the whole, though, the oil bounty tends to get misspent, and the poorest citizens of the countries concerned rarely see the benefits, a phenomenon known as the oil curse. Ordinary Venezuelans, for example, are poorer than they were 30 years ago, despite the hundreds of billions of dollars their country has earned from oil; and Nigeria is famous for its oil-fired corruption.

A more obvious loser is the global energy consumer, who may have to endure higher prices over the long term if NOCs in OPEC—or those from countries such as Mexico and Norway that shadow the cartel—increase their market share at the expense of the majors. Official American estimates suggest that over the past 30 years OPEC's machinations transferred over $7 trillion in excess profit from consumers to producers. And the cartel's coffers are still overflowing: OPEC's oil-export revenues have shot up from about $100 billion in 1998 to perhaps $340 billion last year.

The anti-OPEC

A private oil industry is essential if future OPEC abuses are to be checked, especially as the world's remaining reserves are highly concentrated in the Middle East. So it is a pity that the biggest loser of all from the rise of resource nationalism looks to be Big Oil. NOCs are increasingly doing battle with the majors outside their home turf, enjoying unfair advantages arising from their quasi-government status. One oilman calls this the coming age of "asymmetric warfare".

Because state-controlled firms do not have to meet the same standards of transparency as publicly listed ones, nobody knows their true financial status. Most operate with "soft" budgets, in the knowledge that their state parents will supply capital when needed. Anecdotal evidence suggests that government-run firms sometimes overpay for assets in order to edge out majors.

NOCs also need to worry less about environmental and human-rights campaigners. When activists forced Canada's Talisman Energy to stop doing business with Sudan's thuggish government, a Chinese firm happily snatched up the oil concession. And Indian NOCs can operate in places such as Myanmar, which majors tend to avoid. American officials have been scolding India over gas deals its NOCs have recently signed with Myanmar and Iran.

Even in countries that do not have a lot of reserves, the playing field is increasingly tilted toward the locals. For example, the majors are desperate to sell petrol to China's billion-plus consumers as car

ownership becomes more widespread, but they may not get the chance. One ominous sign was a fiasco over a gas pipeline from China's far west to Shanghai, which Exxon and Shell were going to help build in return for access to the Chinese market. But they were offered such unattractive terms that they pulled out; state-run PetroChina is completing the job by itself.

“China has 1.3 billion consumers, just like Russia has vast quantities of oil and gas, but neither is going to give them up to foreigners. China wants technology, but then will spit them out,” says David Hurd of Deutsche Bank. The Russian oiligarch concurs, pointing out that BP would now be unable to conclude the deal in which it bought half of Russia's TNK.

So will the rise of NOCs prove the final nail in the coffin for the once-proud Seven Sisters? The head of exploration for a super-major thinks that within five years the industry will see another big wave of consolidation.

Given the rising cost of finding and developing oil, analysts reckon that it might be cheaper for the majors to add reserves by “drilling on Wall Street” (that is, buying one of the mid-sized companies) than looking for oil in the ground. In early 2005, Chevron took over Unocal, a mid-sized American oil company, beating China's CNOOC and Italy's ENI to the draw.

However, some pundits think that even consolidation will not save the majors, and that the once-proud giants may have to reconcile themselves to shrivelling up over time as they fail to replenish reserves. They would be “hollowed out” into technology companies not unlike today's Halliburton or Schlumberger, and become mere handmaidens to the NOCs.

How to survive

But do not write the majors off just yet. They are remarkably resilient, as their rebound from the nationalisations of the 1970s proved; they are still capital-rich; they command the top talent in the business; and they can still claim to have the edge in technology.

Any survival strategy for the majors must centre on technology, for two reasons. First, this is an area where they already have an advantage over the NOCs. Second, the majors are likely to be banned from developing the cheapest and easiest reserves, which leaves them with trying to squeeze extra oil from difficult reservoirs.

With much of the conventional resource base closed to them, the majors are increasingly looking to “unconventional” hydrocarbons—at which they used to turn up their noses. The best example is Canada's tar sands, mucky hydrocarbons that are much more difficult, expensive and environmentally damaging to convert into petrol than ordinary oil deposits. In theory, there is more energy in Alberta's tar sands than in all the oil in Saudi Arabia, but getting it out has proved so problematic that production remains a trickle.

AFP

All the same, most of the majors are now ploughing big money into tar sands, shale, coal-bed methane and similar projects. Indeed, Exxon's Mr Raymond recently vowed to invest sufficient resources to “turn unconventional oil into conventional oil” over time. Simon Henry, a director at Shell's exploration and production arm, says that within a decade, unconventional hydrocarbons could make up over a fifth of his company's total resource base.

Another big growth area for the majors is natural gas. That is ironic, for gas was once seen as so worthless that wags quipped: “Find gas once and you're forgiven; find it twice and you're fired.” Using natural gas to make electricity produces less local pollution and contributes less to global warming than burning oil or coal, which greatly adds to its attractions.

The majors have the edge over NOCs in developing gas because it is capital- and technology-intensive; getting it to market from remote places requires compressing and cooling it, and shipping it as liquefied natural gas (LNG). Unlike oil, which can be sold easily in the world market, gas needs to be marketed to end-use customers to be worth anything.

The most spectacular gas project now under way is in the Russian island of Sakhalin, just 25 miles north of the Japanese island of Hokkaido. In the rest of Russia, Gazprom, the inept and corrupt state gas monopoly, controls gas resources through its domination of the country's gas pipeline network. But Sakhalin is so remote that gas has to be shipped as LNG, not by pipeline, so the Russians have asked several international firms to help them develop the deposits.

The charms of Sakhalin

Sakhalin Energy, a project led by Shell, plans to ship Russian gas as LNG to both Japan and China, offering a market-based, technology-led solution to the geopolitical squabbles over which of those two Asian giants will get access to Siberian energy. In fact, Sakhalin Energy has signed contracts to ship Russian gas to America's west coast via a new LNG regasification terminal in Baja California, Mexico, so Russian gas will be able to reach the whole world.

The future of the majors lies in big, technically complex integrated projects of this sort, argues Mr Ellis of the Boston Consulting Group. In the past, the majors have scoffed at big integrated gas, petrochemical and power projects because they tend to produce lower rates of return than do upstream oil investments. But the majors may no longer have a choice. If they want access to other countries' hydrocarbon reserves, they will have to offer skills that the NOCs tend to lack, such as project integration and downstream marketing.

If oil prices drop, the majors and the NOCs might even get together. David Victor of Stanford University says the NOCs “are usually so grossly inefficient” that their grand ambitions and hostility to foreign investment might crumble in the face of lower revenues. The majors, for their part, could hasten that day by changing their attitude. In the past, they have insisted on majority ownership of assets and high returns on capital—“skimming the cream”, in industry jargon. In future, they may need to woo their targets more. As Christophe de Margerie, head of exploration and production for Total, puts it, “You can no longer just say, ‘I am the king', and expect countries to give up their resources. You have to bring a win-win package, offering things like electricity generation, refining systems, training. You need to be sexy.”

Conversely, a sharp rise in oil prices could also help to expose the folly of resource nationalism. The biggest lesson from the failed Arab embargo of the 1970s is that oil is a fungible, global commodity: a shock in one place sends prices soaring for everyone, everywhere.

Even CNOOC's Mr Fu, who wants to see Chinese firms flourish at home, believes that their current infatuation with going overseas for “equity oil” is misguided. He thinks the government backing that is so welcome to NOCs today may eventually backfire. The best prospects, he notes, may come not from China's friends but from countries that are not friends.

The biggest fear of every oil company, whether private and public, is that sooner or later the oil may run out. Will it?

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The incredible shrinking companies

Apr 28th 2005
From The Economist print edition

The way oil reserves are booked needs reforming

RESERVES proved fatal for the career of Sir Philip Watts, Shell's former chairman, who lost his job amid accusations of having “booked his way to the top” by inflating the firm's reserve figures. But the latest financial disclosures from the majors suggest problems with reserves were nothing unusual. Even mighty Exxon failed to replace all its reserves last year, and Chevron's reserves shrivelled to less than a fifth of their size a year earlier.

In reality, things are not nearly as bad as they sound. Most of the apparent shrinkage has more to do with inadequacies in America's financial regulations governing oil-company reserves than with a lack of oil. In particular, the Securities and Exchange Commission's rules on what proportion of a company's hydrocarbon holdings can be booked as “proven” are arbitrary and overly restrictive. A thoughtful report from CERA, an oil consultancy, explains that these rules were formulated at a time when American officials worried about the country running out of oil and gas, and asked firms to book only those reserves that could get to market with “reasonable certainty”.

The principle sounds sensible, but the specifics are not. For example, oil companies are required to recalculate the viability of their reserves each year, using the oil price at year-end. Never mind that no oilman plans his investments using that arbitrary price. In 2004, the price of heavier grades of crude oil collapsed at the end of the year. Even though that proved a brief and unrepresentative blip, firms listed on American stockmarkets had to write off vast quantities of reserves on paper.

Nor have American regulations kept pace with technological innovation. For example, when the oil industry operated only onshore, it made sense to require firms to establish the physical presence of oil by drilling lots of wells. In ultra-deep water, however, wells can cost $30m to $40m apiece. Experts say 3D seismic data and well logs are sufficient to establish the presence of oil, without the need for elaborate test wells. The SEC recently agreed to allow this modern approach—but, absurdly, only in the Gulf of Mexico.

Let the sunshine in

Clearly, American regulators need to modernise their rules, but so far they have been dragging their feet. *Petroleum Intelligence Weekly*,a leading industry publication, has put forward a controversial proposal: that the majors voluntarily disclose data on all their reserves, broken down field by field across the world. The global mining industry already runs a si-milar scheme.

OPEC figures are even murkier than oil-company accounts, but there is growing pressure on governments to be more open about their reserves too. Matt Simmons, a Texan investment banker who claims that Saudi oil fields are running down much faster than their owners admit, demands that OPEC countries also disclose field-by-field data. Many oil companies do not even break down their results by country. They claim that such disclosures would give away sensitive commercial information or break confidentiality clauses with government partners. Governments fret that their national sovereignty would be put at risk.

Yet as long as the rules apply to all companies, it is hard to see what harm they would do. Individual firms already have these data available, and readily disclose them to banks or to potential merger partners. And given some of the national oil companies' shameful record of corruption and abuse of oil revenues, sovereignty as a reason for non-disclosure does not wash either.

Far from losing out, companies and their shareholders may benefit from greater disclosure. Financial analysts say that Big Oil's murky accounts are raising its cost of capital. The Boston Consulting Group's

Phillip Ellis insists that “transparency would lead to a dramatic change in how investors view oil companies. In time, it would expose the long tail of non-performing assets in their portfolios.”

As for OPEC countries, they would benefit from refuting claims that they are running out of oil. Saudi Arabia insists its reserves are healthy. Mr Simmons's claims to the contrary are unnerving investors and making prices more volatile. He may well be wrong about Saudi decline rates, but he is surely right in saying that: “With more transparency, any analyst can decide whether we have plenty of oil left or if we've already peaked. We are now flying totally blind.”

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The bottomless beer mug

Apr 28th 2005
From The Economist print edition

Why the world is not running out of oil

Alamy

Drowning in it?

“OIL is found in the minds of men.” So says a popular bumper sticker in America's oil patch. There is something in that. Daniel Yergin, author of “The Prize”, a Pulitzer prize-winning history of oil, argues that the history of oil is one of astonishing innovations. In 1859, Colonel Edwin Drake struck oil in Pennsylvania by drilling rather than digging, adapting the old Chinese trick of drilling for salt. That prompted the world's first oil boom, which inevitably led to bust as oil flooded the market and prices collapsed.

In 1901, another set of unlikely innovators struck oil in unpromising terrain at Spindletop, Texas. They used novel drill bits that rotated through the earth rather than merely pounding it, enabling them to reach far greater depths. This started up a ferocious gusher that spewed out nearly 1m barrels of oil in ten days. It marked the birth of the modern oil industry. Inevitably, this boom once again led to bust as oil grew ever more plentiful.

And yet, despite this history of innovation and abundance, concerns about depletion are once again clouding the industry's future. This time round, argue the doomsayers, depletion really is looming, and technology will not come to the rescue, as it has done in the past. If they are right, today's oil prices are but a harbinger of much, much worse to come.

Clearly, oil is a non-renewable resource that has to run out some day. Those who expect that day to come sooner rather than later usually point to Hubbert's peak. M. King Hubbert was a geologist at Shell who predicted in 1956 that America's oil production would peak and begin to decline in the early 1970s. In fact, oil production from the 48 contiguous states did peak around 1970. The current debate on depletion is about when the global “Hubbert's peak” will be reached.

The United States Geological Survey did a comprehensive study in 2000 and concluded that such a peak was at least two decades off. The IEA broadly concurs, arguing that oil supplies will not become constrained until after 2030, provided the necessary investments are made. However, some analysts disagree sharply.

The leading lights among the petro-pessimists are Colin Campbell and Jean Laherrère. In a much-quoted article in *Scientific American* in 1998, they predicted that the global Hubbert's peak would be reached around now. There has been a flood of gloomy books with such titles as “Out of Gas” and “The End of Oil”. And Mr Simmons, the petro-pessimist investment banker, is bringing out a book in May that

questions the sustainability of production in Saudi Arabia.

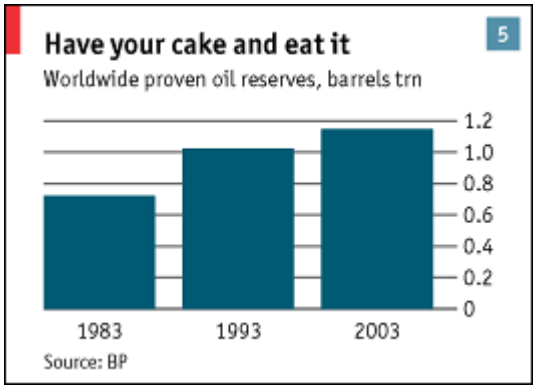
All found?

In essence, the pessimists say that there is a fixed amount of oil in the ground to be found, and that mankind has found it already. According to Jim Meyer of the Oil Depletion Analysis Centre, a British think-tank, “Discovery clearly peaked in the 1960s. We are out of North Seas.” He argues that annual oil consumption has exceeded new discoveries since the 1980s, indicating that the world is running down its stock of “found” oil, and reckons that 18 major oil-producing countries, currently making up about 30% of world output, are now past their peak.

Given that oil companies have poked and prodded the entire Earth (save Antarctica) for over a century, goes the argument, there cannot be any more “super-giant” fields such as Saudi Arabia's Ghawar, which alone produces 5m bpd. Mr Campbell has neatly summarised this view of the problem: “Understanding depletion is simple. Think of an Irish pub. The glass starts full and ends empty. There are only so many more drinks to closing time. It's the same with oil. We have to find the bar before we can drink what's in it.”

But this argument is wrong both on a philosophical and a practical level. The philosophical problem, says Michael Lynch of EnergySEER, a consultancy, is that the pessimists treat the level of recoverable oil resources as fixed—like the amount of beer in that mug. In fact, expert estimates on the ultimate recoverable resource base have consistently grown over the past few decades, even though the world has been guzzling oil as if there was no tomorrow (see chart 5).

Peter Odell of Rotterdam's Erasmus University points out that “since 1971, over 1,500 billion barrels have been added to reserves. Over the same 35-year period, under 800 billion barrels were consumed. One can argue for a world which has been ‘running into oil' rather than ‘out of it'.”



What makes the estimates go up continuously is a combination of economics and innovation. The IEA explains the process this way: “Reserves are constantly revised in line with new discoveries, changes in prices and technological advances. These revisions invariably add to the reserve base.”

A few decades ago, the average oil recovery rate from reservoirs was 20%; thanks to remarkable advances in technology, this has risen to about 35% today. But despite this improvement, two-thirds of the oil known to exist in reservoirs is still abandoned as uneconomic, leaving room for tomorrow's discoveries or innovations to lift recovery rates and magically push the global Hubbert's peak even further towards the horizon. Pundits had predicted that fields in the British North Sea would reach their maximum output by 1990. In fact, they have only just peaked.

Dozens of similar examples from around the world added up to defy Mr Campbell's prediction of a global Hubbert's peak by now, which plainly has not materialised. Indeed, even the legendary Hubbert did not get it quite right. His forecast for the American production ignored the vast quantities of oil that lie under the deep waters of the Gulf of Mexico. That may seem an unfair critique, as he had no way of knowing about the wave of offshore drilling technologies that have become available in the past decade. But that is the point: today's pundits cannot foresee tomorrow's innovations.

Petro-optimists say the future for oil is bright. Mr Odell argues in a recent book, “Why Carbon Fuels Will Dominate the 21st Century's Global Energy Economy”, that conventional oil will not peak until nearly mid-century, and that unconventional oil resources such as Canada's tar sands will peak only at the end of this century. Morris Adelman of the Massachusetts Institute of Technology has even argued that the “amount of oil available to the market over the next 25 to 50 years is for all intents and purposes infinite.”

A new age of discovery

But there is a more practical fallacy embedded in the gloomy forecasts too. “I challenge the idea that the

era of discovery is over in oil," says Total's Mr de Margerie. Thanks to the cold war and other political constraints on western investment, much of the world has yet to be explored with the aid of the latest technologies.

Russia is a good example. When it opened up to private investment under Mr Yeltsin, it saw a huge inflow of modern technology and management talent, causing a dramatic leap in production—which has now been put in jeopardy by Mr Putin's crackdown on the sector.

Similarly, other parts of the world are still "under-rigged" and under-examined. According to Mr Fu, CNOOC's chairman, "our offshore prospects are just beginning. A promising area the size of two North Seas has yet to be explored." When India recently liberalised its oil-exploration sector, Britain's Cairn struck oil in Rajasthan soon afterwards. V.K. Sibal, India's director-general for hydrocarbons, expects much more, "maybe even a super-giant deep offshore somewhere near the waters off Myanmar."

The unexplored potential in the Middle East remains vast. Pete Stark of IHS Energy, a leading consultancy on exploration, says that Iraq has over 130 undrilled prospects, and expects its proven reserves to rise sharply over time. Neighbouring Saudi Arabia has about 260 billion barrels of proven oil reserves today. Mr Naimi, the oil minister, is confident that current and future technologies will help lift that figure by 100 billion barrels in the next few decades, and points to an unexplored region on the Saudi-Iraqi border which alone is the size of California.

Total's Mr de Margerie points to frontiers that will be opened up by technology: "There may not be any more glamorous Ghawar fields, at least onshore, but there is tremendous opportunity if we look at 'deep horizons'." He believes that there are large deposits 10,000 metres (32,800 feet) or more underground. The snag is that they are usually under very high pressure or very hot, and may be extremely acidic. But as technology improves, he thinks, "these very strange hydrocarbons" will become economic.

Already, the industry is exploring under water at depths that were unimaginable a decade or two ago. In the Gulf of Mexico and elsewhere, oil rigs now float atop 3,000 metres (10,000 feet) of water. These marvels of engineering are stuffed with the latest in robotics, electronic sensors and satellite equipment. Using fancy "multilateral" wells that twist and turn in all directions, they can hit giant underwater oil pockets miles away from the rig.

The industry is exploring under water at depths that were unimaginable a decade or two ago

In short, there are lots of frontiers left. Yet even if there is plenty of oil still available under the ground, getting it to market will pose huge problems. It will take lots of innovations, as well as courage and capital, to move it to where it is needed.

That points to the petro-pessimists' second great doubt: that the oil industry has run out of techno-fixes. They say that technological advances such as multilateral wells are a mixed blessing because they cause reservoirs to be depleted faster; that there are no more "killer applications" like 3D seismic reservoir-imaging technology left to transform the industry; and that the majors have largely abandoned the vital task of investing in upstream research and development in recent years, as part of a misguided cost-cutting drive.

Petro-pessimism

This is a more serious critique than the one about Hubbert's peak, because it cuts to the heart of what will make or break the oil majors. But Mr de Margerie challenges both strands of petro-pessimism: "The peak will come, but we can keep the plateau for a long time with technology." So who is right?

First, consider the idea that technology could be a mixed blessing. It is true that in some fields the majors have recently found that investments in the latest technologies pushed up output and led to faster depletion. Critics argue that these technologies merely act as fatter straws, helping to suck out more liquid but ultimately emptying the glass faster too.

Roger Anderson of Columbia University has looked for this alleged "faster depletion effect" in over 40 oil and gas fields, using the latest innovations, and found no evidence for it. "The more prevalent problem", he says, "is not that there is faster depletion, it is that oil companies desperate to get the black gold into the bank are ignoring modern asset-management techniques." He points to firms using advanced "4D" seismic production technologies but failing to tie production of oil and gas to the market and price conditions prevailing at the time.

Besides, the underlying assumption that the recoverable reserves are fixed might be wrong in itself. A fatter straw could end up producing more oil both now and later if the resource base is dynamic. In most cases, modern techniques clearly prolong a field's life and increase the recoverable reserves.

Andrew Gould, chairman of Schlumberger, points out that 25 years ago only one-sixth of all exploration wells drilled were successful; now the figure is two-thirds. Over that period, the success rate for development wells has gone from hit-or-miss to nearly 100%. He is convinced that the future lies in embedding digital technologies such as down-hole sensors, real-time communications equipment and other kit that will make for the smart oil field of the future.

Companies already use some of these techniques when they drill wells, but he thinks they should apply them to monitoring the wells right from the start. “Progressive illumination” was the management philosophy of the past: “You learned as you went along. Now you draw a much better picture up front, and monitor the reservoir carefully from day one.” Private companies do not want to spend such money up front, at least not yet, but he speaks approvingly of Saudi Aramco's long-term thinking.

High-tech desert

Rising out of the windswept deserts of eastern Saudi Arabia is a petroleum visualisation centre on a par with the best in Houston. Backing it up is a bank of computers with more data-storage capacity than America's NASA. Unlike most private companies, Aramco has invested in observation wells that monitor its reservoirs in real time. Mr Jumah, the firm's boss, explains that he can check on what is happening deep underground in a well hundreds of miles away from his laptop computer. The company's geologists say this monitoring technology allows them to act quickly to ward off the problems of field decline to which Mr Simmons has drawn attention.

What about the argument that there are no breakthrough technologies left to transform the oil business? On one estimate, the net benefit to the global oil industry from 3D seismic imaging (through reduced drilling costs, more exploitation and so on) amounts to $11 billion a year. But there is no obvious blockbuster technology to follow it, though some lesser ideas are being investigated. For example, Exxon and Schlumberger are looking into whether adding electromagnetic analysis to seismic soundings can improve the visualisation of reservoirs, and Apache is investing in technology that allows three-dimensional visualisation without the need for big amphitheatres or special goggles.

Peter Robertson, vice-chairman of Chevron, says that he “would not bet the company on a new 3D seismic”. But he is convinced that incremental technologies matter because they can help lift recovery rates by a few percentage points and improve recovery in existing fields: “Flattening the decline curve could mean more than even a big new discovery.”

David Lesar, Halliburton's boss, has not given up hope for a breakthrough. He argues that “when 3D seismic or directional drilling first came, nobody saw their potential. It was the unexpected application of those technologies that was key.” He thinks today's innocuous technologies could prove tomorrow's breakthroughs, as long as the industry continues to encourage innovation.

That points to the most explosive criticism levelled at the oil majors: that they no longer have the capacity to innovate. A few decades ago these firms were fiercely proud of their proprietary technologies, which they believed gave them a competitive edge. But during the 1990s most majors slashed funding in this area, leaving service firms such as Schlumberger and Halliburton to pick up the slack.

“Ten-dollar oil killed upstream research,” says one executive. Ivo Bozon of McKinsey, a consultancy, reckons that the majors slashed upstream R&D spending from $3 billion in 1990 to below $2 billion in 2000 (both in current dollars). Over the same period, the service companies increased their investment in research from $1.1 billion to $1.7 billion. The sharpest cuts, adds Mr Bozon, were made by American companies.

“These guys need to explore, but they don't know how to do it any more,” complains Roice Nelson of Geokinetics, which makes reservoir visualisation software for the oil industry. Mr Nelson helped found Landmark Graphics, an industry pioneer in imaging software, so his criticism stings. He notes that the industry sacked many of its best-qualified technical staff, and that relatively few college students now are going into petroleum engineering. “We'll be working till we're past 80,” he sighs.

The majors now realise that this shift away from technology, once their core strength, was a mistake that

has benefited three groups of rivals: the service companies, the “mini-majors”, and the NOCs. Mr Lesar at Halliburton is delighted: “There's been a fundamental shift in ownership and development of technology from the majors to the service companies.” The problem is that the service companies are less capable of investing for the long term, because their balance sheets tend to be weaker than the majors'. Moreover, they need their customers to adopt those technologies to make them commercially viable—but the majors have proved gun-shy.

The shift in innovation has been a boon to smaller oil companies, which are not so risk-averse. Especially since the wave of mergers, the majors need mega-projects with long lives to replace reserves. That has made them wary of trying new technologies. Chevron's Mr Robertson says that taking a flier on a project with a long lead time and high investment is simply too risky for his firm. Mr Farris, Apache's chief executive, takes quite a different approach: “We go to the service companies and say, ‘What have you got?' Hell, we'll spend money to try it.”

The rise of the indies

All this hurts Big Oil in another way: the NOCs no longer need them to get access to modern technology. The more sophisticated NOCs, like Saudi Aramco, buy technology directly from the service companies, but many others are turning to the smaller, independent majors, known as “indies”, for help.

Jim Hackett, chief executive of America's Anadarko, explains that with a market capitalisation of $20 billion and a capital budget of $3 billion a year, his firm is big enough to challenge the big boys: “I can't compete with Exxon in 20 countries, but I can beat them in a few.” Aside from their speed of decision-making and their readiness to embrace new technologies, he thinks that resource nationalism gives the smaller western oil firms an advantage. “We are no threat, we have no baggage of the Seven Sisters. Sometimes locals don't even know that we are an American firm.”

Whether the majors will regain their skills as technology innovators is an open question. Exxon, for one, is making a big push. The firm spends some $600m a year on upstream R&D, more than its rivals, and sees technology as the key to unlocking future reserves.

The rise of the NOCs and resource nationalism ensures that the majors will not have cheap and easy pickings in future. If they are to survive, they must adapt and change—and perhaps even move beyond petroleum, as the next section explains.

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Consider the alternatives

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Is the age of oil drawing to a close?

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Alaska's huskies look the other way

"CONSERVATION may be a sign of personal virtue, but it is not a sufficient basis, all by itself, for a sound, comprehensive energy policy." So declared Dick Cheney, America's vice-president (and former boss of Halliburton), in 2001 as he defended his administration's new energy policy. That policy still aims to bolster energy independence from OPEC by boosting domestic supplies, including oil found in protected parts of Alaska.

Alas, America will never achieve energy "independence", given that it consumes a quarter of the world's oil but has less than 3% of its proven reserves. A boost to its output will make little difference to the global energy equation, and its energy plan does little to encourage greater fuel economy in cars or gas-guzzling sport-utility vehicles.

That is a pity, for history shows that curbing demand can be a powerful check on the OPEC cartel. After the oil shocks of the 1970s, the developed world introduced powerful policies to encourage energy efficiency. In Europe and Japan, these took the form of energy taxes; America chose instead to regulate the car industry through the Corporate Average Fuel Economy (CAFE) law.

At the time, energy use and economic output were thought always to grow in lockstep. Amory Lovins, head of the Rocky Mountain Institute, a natural-resources consultancy, argued that there was an alternative "soft path". He was widely ridiculed, but the 1980s proved him right. Thanks chiefly to government policies, growth in the rich world's energy use and GDP decoupled, and the OECD countries became much more energy-efficient (see chart 7, below).

The biggest success was the CAFE law, which between 1978 and 1987 produced an improvement of over two-fifths in the average fuel efficiency of new American-made cars. Between 1977 and 1985, the volume of America's net oil imports fell by nearly half even as its economy grew by a quarter. Mr Lovins believes this broke OPEC's pricing power for a decade. The world enjoyed low and stable oil prices in the late 1980s and much of the 1990s.

All this shows that government energy policies matter. As this survey has argued, today's high oil price is not causing a shock of the sort seen in the 1970s. Even so, governments would be wise to bring in policies that speed the end of the age of oil.

But why, ask oilmen, when oil has served the world economy so splendidly over the past century? The iron nexus between the internal-combustion engine and petrol has indeed been vital to the extraordinary economic expansion seen in the 20th century. But now the oil industry has to contend with two powerful forces for change: greenery and geopolitics.

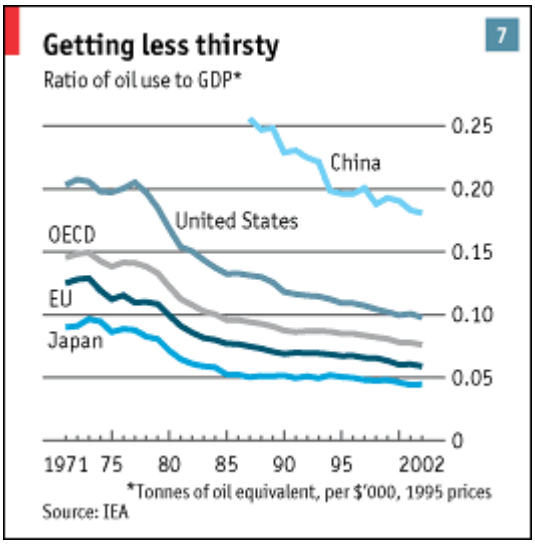
Concerns about oil's impact on local pollution and human health are nothing new, and CERA's Mr Yergin argues that the oil and car industries have dealt with them successfully through technologies such as catalytic converters and low-sulphur petrol: "They have shown that they can deal with smog: today's cars are 98% cleaner than those from the 1970s on conventional pollution."

However, the internal-combustion engine will never be able to overcome the problem of carbon emissions, which are an unavoidable side-effect of burning petrol. Mr Yergin believes that the growing popular pressure for governments to tackle global warming poses a serious challenge to the oil industry.

An even more powerful reason for governments to promote alternatives to oil comes from geopolitics. As the “fear premium” on the oil markets has shown, the oil world has become increasingly volatile. Every official forecast shows that the Persian Gulf's share of the oil trade will grow inexorably over the next two decades, so the risk of terrorist attack, embargo or economic shock is bound to rise. The likeliest sources of trouble outside Saudi Arabia are the frenetically busy Straits of Hormuz, in the Middle East, and the Straits of Malacca in Asia.

The 1970s oil shocks prompted the rich world to switch from petroleum to other fuels for such things as power generation. But there are no viable alternatives to the motor car, so the share of the world's oil going to transport has risen sharply. That has left the world dangerously vulnerable to the next oil shock. Oil use is now concentrated in a sector that simply cannot live without it.

There is clearly a strong case for governments to start weaning their economies off oil. But how? The most radical idea is to rethink transport completely so that at least in urban areas (where the majority of mankind now lives) there is much less need for individual cars. Mobility would be provided by trains, subways and ride-sharing schemes instead. Perhaps in future, enlightened urban planners will design cities with cheap and convenient public transport in mind. Alas, that time has not yet come: just look at China.



As soon as ordinary Chinese become wealthy enough to buy a car, they happily abandon public transport. Shanghai's economic boom has been accompanied by an annual rise of 15% in the number of cars in the past few years, which explains the city's miserable traffic and smog. Officials have tried to curb this by introducing an auction system for new car permits, but have been taken aback by the demand. The price of new permits has shot up past $5,000 per car and is still rising.

In short, public transport is vitally important, but it will never dislodge the car. For the world's aspiring billions, it is the ultimate symbol of status and freedom, even if it perpetuates mankind's addiction to oil. That points to more practical ways to tackle petro-dependency: increasing efficiency and boosting alternative fuels.

CAFE culture

The first candidate for efficiency gains is America, land of the gas guzzler. CAFE was a success, but a loophole has allowed SUVs to dodge tight fuel-economy standards. The average fuel economy of new American vehicles is close to a 20-year low. Tightening CAFE would make sense, but a less market-distorting approach would be to raise America's pitifully low petrol taxes.

More importantly, a higher petrol price in America would send a strong price signal to the markets that efficiency matters. That would boost innovations such as hybrid drives, pioneered by Toyota, which are now slowly making their way on to the market. Hybrid cars use conventional petrol engines, but boost overall fuel economy through the use of a small electric motor at low speeds, as well as clever electronics that capture the energy generated in braking.

But boosting efficiency will not be enough, says Larry Burns, GM's head of research. He believes that the internal-combustion engine will at best become 25% more efficient over time, and hybrids may save a similar amount, but that the increased petrol consumption that comes with economic growth may wipe out these gains. The world will remain utterly reliant on oil: “Our industry is 98% dependent on petroleum to power our product, and we're very worried about volatility.” That is why, he explains, his firm is keen on alternative fuels.

The current favourite is biofuels, typically made from renewable resources such as agricultural crops or waste. They are attractive not only because they are green, but because they can be blended into conventional petrol and used in today's engines. Brazil has a huge market for ethanol made from domestic sugar cane. Car companies are equipping vehicles with “flex-fuel” capability, so they can run on either petrol or ethanol blends.

All biofuels cost more than petrol, but some are egregiously wasteful. In America, making ethanol from corn usually takes more energy and creates more nasty emissions than burning the petrol it is meant to replace. And yet, thanks to the political power of mid-western farmers, the country spends billions of dollars on producing it. However, the next generation of “cellulosic” ethanol promises to be much greener. Iogen, a Canadian firm pioneering this technology, says America produces enough agricultural waste to put 10% ethanol into every petrol tank in the country. It expects to scale up its technology to a commercial prototype by 2008.

Another intriguing alternative to oil comes from natural gas. Gas-to-liquids (GTL) is the clunky name given to a set of fuels that can be blended into conventional diesel and used in today's engines. They have the advantage of being super-clean, as well as boosting the potency of diesel fuel. Though they can be made from coal or biomass, the most likely option is natural gas.

Jack Jacometti of Shell argues that of all the alternative fuels, GTL is already the cheapest, and the price is dropping as the quantity rises. His firm is planning a $6 billion GTL plant in Qatar, home to the world's third-largest gas reserves. Because this clean fuel happens to be made from natural gas, the oil majors do not see it as a threat. Indeed, it allows them to put some of their more inaccessible gas reserves to commercial use.

These blended alternatives may eventually help check OPEC's pricing power at the margin, but none is likely to make a real dent in oil consumption. To use them to best advantage, the IEA is urging governments to use smart subsidies that discriminate in favour of the greenest forms of biofuel. In the agency's most optimistic scenario, the OECD's biofuels consumption will rise 25-fold by 2030—but even then it will account for no more than 4% of worldwide transport-fuel consumption.

The emerging combination of hydrogen fuel and fuel-cell engines may go further. Fuel cells are essentially big batteries that combine hydrogen fuel and oxygen from the air to make electricity that can power anything from a laptop to a home or a car. The hydrogen can be made from any primary energy source, be it fossil fuels or wind energy.

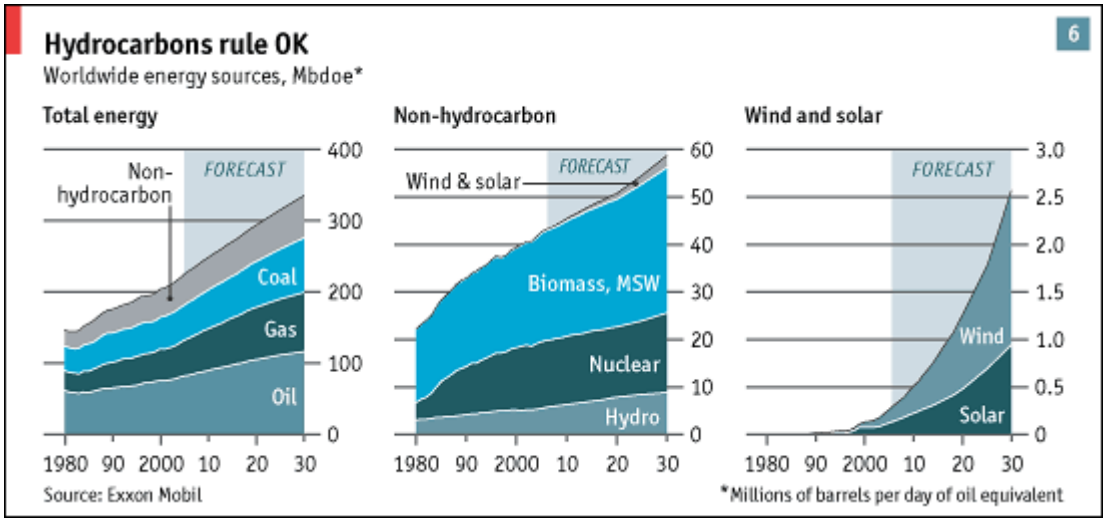
The beauty of this combination is that it produces no local emissions, and if the hydrogen is made from renewables or coal with carbon sequestration technology (which captures the carbon emissions from hydrocarbon use and stores them underground), no greenhouse gases either. That is why, says GM's Mr Burns, “fuel cells will finally take the automobile out of the environmental debate.” And because hydrogen can be made anywhere by anybody, no OPEC would hold sway.

Fuel cells will not come overnight, but the car industry is already pouring billions of dollars into developing them. GM plans to have fuel-cell technology ready for commercial use in 1m cars by 2010—provided the hydrogen filling stations are in place. Will the oil industry rise to the challenge?

It is not as daunting as it seems. If hydrogen is introduced in phases, as unleaded petrol was, the industry should be able to cope. Various studies have suggested that the cost of providing convenient access to hydrogen to a majority of Americans would be a few tens of billions of dollars, which sounds a lot but is actually quite a modest amount by the oil industry's standards. This would probably involve tapping into the natural-gas grid to make the hydrogen fuel, and putting hydrogen pumps into existing petrol stations.

A bit of everything

So which technology is the one to watch? “GTL, biofuels, hydrogen—everything is coming in a small way,” says Ms Jaffe of Rice University. “The question is, will anything be a big winner and achieve market saturation? If you're Exxon, you're betting it will all be marginal.”



And indeed Exxon forecasts that in 2030 internal-combustion engines will still make up over 95% of the world's vehicle fleet, and that oil will remain top dog (see chart 6, above). Mr Raymond, Exxon's boss, thinks renewable energy is “a complete waste of money”. He has argued in the past that global warming is an unscientific notion perpetuated by government scientists in search of funding, though his company now tries to downplay such views.

Mr Raymond may well be the most successful oilman since Rockefeller himself. On one estimate, in his 12 years at the helm he has lifted his company's “economic value added” by $75 billion and its market value by $300 billion. However, it is just possible that he is underestimating the long-term risk that climate change and geopolitics pose to his firm. If governments become more determined to promote alternatives to fossil fuels, or if the new wave of private lawsuits and shareholder resolutions against oil companies over global warming turns Big Oil into the next Big Tobacco, then even a giant such as Exxon will feel the consequences.

There are already signs that a clean-energy revolution is getting under way. Whether prodded by low-carbon regulations or enticed by green subsidies, venture capitalists are pouring pots of money into low-carbon energy technologies, ranging from renewables to carbon sequestration. Even nuclear power, once thought dead, is getting a second look because it emits no greenhouse gases.

Panos

Guzzling it in Shanghai

And it is not only start-ups that are making such investments. Giant GE, for instance, is now getting into the game in a big way. John Rice, the head of GE's energy business, says his wind division may have revenues of perhaps $2 billion this year—quite respectable for a technology that for many years was dismissed as hopelessly impractical. GE has invested in solar energy and fuel cells too. But it is also making a big push into nuclear power and “clean coal” technologies. Mr Rice explains that because of the uncertainty surrounding oil's future, “We take a portfolio approach: a little bit of everything.”

If the majors want to stay on top, they too should take the threats to oil's supremacy seriously and start looking at alternatives. Sir Mark Moody-Stuart put it best a few years ago when he was chairman of Shell: “We need to meet our customers' needs for energy, even if that means leaving hydrocarbons behind.” BP and Shell have done more than others, each setting up divisions to investigate renewable energy and hydrogen, but the amounts they are spending are still small compared with the money that

goes on their oil and gas divisions. Environmentalists dismiss these efforts as “greenwash”.

Even the most powerful man in the oil patch, Saudi Arabia's Mr Naimi, seems to acknowledge that his world is changing. Five years ago, when asked about the prospects for hydrogen, he immediately replied: “Hydrocarbons will remain the fuel of choice for the 21st century.” Asked the same question again recently, he reflected before replying. He had been surprised by the size of the investment the global car industry is making in fuel cells, and he was concerned about efforts to tackle climate change, which he believed would hurt oil. Most revealingly, he said that his country was now looking into carbon-sequestration technologies. Eventually he got back to the question: “Oil will still dominate for the next 30-50 years, because there are no meaningful substitutes.”

Old lags in the industry have long quipped: “The stone age did not end for lack of stone, and the oil age will end long before the world runs out of oil.” Nowadays that sounds less like a joke and more like a forecast.

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About sponsorship

Internet advertising

The online ad attack

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Google's new advertising service could make the internet an even more valuable marketing medium

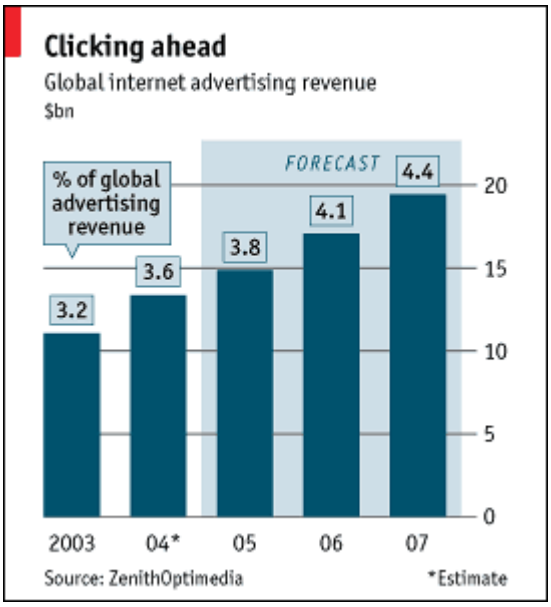
THIS year the combined advertising revenues of Google and Yahoo! will rival the combined prime-time ad revenues of America's three big television networks, ABC, CBS and NBC, predicts *Advertising Age*. It will, says the trade magazine, represent a “watershed moment” in the evolution of the internet as an advertising medium. A 30-second prime-time TV ad was once considered the most effective form of advertising. But that was before the internet got going. This week, online advertising made another leap forward.

This latest innovation comes from Google, which has begun testing a new auction-based service for the more sophisticated advertising of brands, rather than of just individual products. Both Google and Yahoo! make most of their money from advertising. Auctioning keyword search-terms, which deliver, along with their own search results, sponsored links to advertisers' websites, has proved to be very lucrative. Advertisers like these links because, unlike with TV ads, they pay only for directly measurable results. They are charged when someone clicks through to their own website.

Both Google and Yahoo!, along with search-site rivals such as Microsoft's MSN and Ask Jeeves (recently bought by Barry Diller's InterActiveCorp), are developing much broader ranges of marketing services. Google, for instance, already provides a service called AdSense. This works rather like an advertising agency, automatically placing sponsored links and other ads on third-party websites. Google then splits the revenue with the owners of those websites, who can range from multinationals to individuals publishing blogs, as online journals are known.

Google's new service extends AdSense in three ways. Instead of Google's software analysing third-party websites to determine from their content what relevant ads to place on them, advertisers will instead be able to select the specific sites where they want their ads to appear. This provides both more flexibility and more precision, says Patrick Keane, Google's head of sales strategy. Firms trying to raise awareness of a brand often want a high level of control over where their ads appear.

The second change involves pricing. Potential advertisers must bid for their ad to appear on a “cost-per-thousand” (known as CPM) basis. This is similar to TV commercials, where advertisers pay according to the number of people who are supposed to see the ad. But the Google system delivers a twist: CPM bids will also have to compete against rival bids for the same ad space from those wanting to pay on a “cost-per-click” basis, the way search terms are presently sold. Google already calculates likely CPM values for the ads that it places on other people's websites.



Advertisers promoting a brand sometimes only want to get a name and an image in front of consumers, and not necessarily have them click through to a website. Moreover, click-through marketing tends to be aimed at people who already know they want to buy something and are searching for product and price information. Brand, or “display”, advertising is more often used to persuade people to buy things in the first instance.

The third change is that Google will now offer animated ads—but nothing too flashy or annoying, insists Mr Keane. Google has long been extremely conservative about the use of advertising; it still plans to use only small, text-based ads on its own search sites. But many of its AdSense partners might well be tempted by the prospect of earning a share of revenue for display and animated ads too, especially as such ads are likely to be more appealing to some of the big-brand advertisers.

With the spread of broadband providing faster connections, so called “rich-media” ads, which can contain animation, video and sound, are already becoming more widespread. And these are just the sort of ads favoured by companies trying to build their brands.

This could fuel online ad growth even further. As overall advertising spending continues to recover from the slump that began in 2001 after the bursting of the technology bubble, the internet has become the fastest growing advertising medium. Worldwide ad revenue on the internet grew by 21% in 2004 to $13.4 billion, and it is expected to continue at that pace for the next few years, says ZenithOptimedia, a research firm (see chart). Google and Yahoo!, the two most widely visited sites, are reaping many of the rewards. Google recently announced a net profit of $369m in its first quarter from revenue that soared to $1.3 billion, up 93% compared with the same period a year earlier. Yahoo!'s first-quarter net profits more than doubled to $205m on revenue of $1.2 billion, up 55% from a year earlier.

Terry Semel, Yahoo!'s boss, believes there is a lot more growth to come as firms become even more familiar with online advertising. He happily points out that many big firms still allocate only 2-4% of their marketing budgets to the internet, although it represents about 15% of consumers' media consumption—and is growing. Many young people already spend more time online than they do watching TV.

If Google can prove that bidding for display ads works, then its rivals are bound to follow with similar services. This could shake the industry up even more. DoubleClick, an online-marketing specialist which helped pioneer the delivery of simple banner ads to websites, was sold this week in a deal worth more than $1 billion to a private-equity firm, Hellman & Friedman. Even though its prospects recently brightened, DoubleClick put itself up for sale after facing fierce competition.

Other innovations in online marketing are said to be in the pipeline. Local search and its associated advertising opportunities are one huge growth area. Sites such as eBay, the leading online auctioneer, and Craigslist, which hosts local sites, are soaking up large amounts of classified advertising for everything from used cars to job vacancies that once might have gone to newspapers. Yahoo! is expanding rapidly into entertainment, with film and video clips providing another avenue of advertising. This week, Yahoo! appointed another top executive to its media group, fuelling speculation that the website may start to produce its own entertainment content. That should seriously worry TV

broadcasters, who are already losing viewers and ad revenue to the internet.

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Airbus and Boeing

Taking off in Toulouse (and Seattle)

Apr 28th 2005
From The Economist print edition

Just as Airbus's super-jumbo makes its maiden flight, Boeing bounces back

AP

The giant flies

Get article background

WHEN the new A380 took off from Airbus's French production base in Toulouse on April 27th, it should have been the European aircraft manufacturer's big week. The successful first test-flight of a 555-seat super-jumbo was quite an event. Instead, Airbus's American rival Boeing almost stole the show. On April 25th, Boeing said that, if all the options are taken up in a new order for widebody jets from Air Canada, the value at list prices would be around $15 billion—making it one of the biggest aircraft orders ever. The following day, Boeing landed a second huge order from Air India. Soon it will announce a third, this time from Northwest Airlines for its new 787 long-haul aircraft.

The timing may well have been deliberate. Nevertheless, the three orders are more than marketing hype, and should worry Airbus. They all come from airlines that have long been big Airbus customers, and they reflect a new sense of purpose at Boeing, which now looks like outselling Airbus for the first time in recent years under its new super-salesman, Scott Carson. They also bring the tally of launch orders for Boeing's new 787 to over 200—impressive for a new plane which has been on the market for only a year. Airbus, by contrast, has only one customer for its rival A350 long-haul plane, and sees orders for the A380 obstinately stuck at 154.

Boeing sorely needed a boost, not least to spread cheer at its civil-aircraft base in Seattle. Airlines have stopped ordering the venerable 747, except in cargo versions, and the firm may soon have to close the production line, along with those of several smaller planes such as the 717 and the 767.

Boeing clings to the hope that the 747 will survive in a new advanced version, carrying 450 passengers (instead of the usual 416), using composite (weight-saving) technology and engines developed for the 787. British Airways, Cathay Pacific and Japan Airlines—three big carriers that have conspicuously avoided signing up for the new Airbus—are understood to be potential launch customers of the new Boeing jumbo, if it ever flies. Several earlier attempts to upgrade the 35-year-old 747 have flopped.

Unless Airbus can soon unveil some new orders for the A380, possibly at the Paris air show in June, scepticism will grow that the €12 billion ($15.7 billion) project will never earn a profit. Airbus needs to sell around 500 (out of its target sales of 700 over 20 years) to earn a real return on the investment.

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Celebrity magazines

Papped

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A fresh batch of celebrity magazines is coming to America

WOMEN in Britain, say the statistics, are even more obsessed with celebrities than women in America. Nearly 3m celebrity magazines are sold each week in Britain, compared with 7.5m in America, a country with five times the population. Magazine publishers believe that American buyers are not well served and that they have just as much appetite for gossip about Bennifer, Brad and Angelina. Their answer is to launch more titles.

Last week a new magazine called *InsideTV* made its debut. It is about TV actors and is published by Gemstar-TV Guide International. The title joins five other celebrity weeklies published in America: *People*, *Us Weekly*, *Star*, *In Touch* and *Life & Style*. Others will follow. Another group, American Media, has begun the trial of a new magazine called *Celebrity Living*. This August, Richard Desmond will launch an American edition of Britain's popular *OK!*. Bauer Publishing, which already sells *In Touch* and *Life & Style*, is said to be thinking of starting another celeb title, as is Wenner Media, publisher of *Us Weekly*.

So far the market has absorbed new entrants comfortably. John Loughlin, president of TV Guide Publishing Group, points out that the circulations of existing magazines have kept growing despite the arrival of the most recent new titles. Young women want every bit of information they can glean about their role models and are willing to buy several titles each week. That is a boon for the publishing industry. “Celebrity has injected pure adrenaline into the narrowing veins of weekly magazines,” says Peter Kreisky, a media consultant who is advising on the launch of *InsideTV*.

Particularly surprising is the strength of the 31-year-old *People*, owned by Time Warner and said to be the most profitable magazine in the world. It has not ceded ground to its new rivals and still sells 3.7m copies a week. By contrast, *Hello!*, Britain's celeb incumbent, has lost nearly a third of its circulation in the past eight years as celebrity titles have multiplied. Circulation and advertising are still growing at *People*. And *People* has achieved this without changing its editorial formula of friendly celebrity reporting combined with human-interest stories, film and book reviews, and some political news. That is a mix quite different from American Media's *Star,* which focuses purely on celebrities and publishes photos and stories about face-lifts, weight gain and botched relationships. Instead of mounting a really effective attack on the market leader, the new magazines seem to be mainly obsessed with fighting each other.

As the new titles make their appearance, the industry will watch closely to see how nice or nasty they are to the celebrities upon whom everything depends. *Celebrity Living* is much kinder to them than its sister magazine *Star*. So too is *InsideTV*. But there is strong demand for *Star* from women who want to see the stars knocked off their pedestal occasionally. Indeed, several American publishers turned down the chance to become a partner in launching Mr Desmond's *OK!* magazine partly because its photographs are posed and dignified. They prefer the intrusive shots that paparazzi sell.

Because it is still doing well, *People* can afford to look down on its rivals and the way they doctor photographs, rely heavily on waiters and hotel staff for information and sometimes invent stories to bully celebrities into granting interviews. There is a business justification for its lofty stance, since advertisers want to display their products next to beauty and glamour. They tend to stay away from *Star*. Advertisers may sniff at low-down gossip, but America's female readers seem happy to take their celebrity news any way they can get it—true, false, worshipful or unkind. Few publishing executives fear that celebrity magazines' popularity is about to peak with the arrival of another five.

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The soccer business

Scoring in America

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A Mexican team with a winning business strategy north of the border

Get article background

"LATINOS versus *gringos*" is how Jorge Vergara, the Mexican founder of America's newest soccer team, Chivas USA, unashamedly describes the club strategy. Alas, at the moment it is the *gringos* who are winning: in its first four matches the Latino newcomers have won none, drawn one and lost three—including a local match last weekend with the Los Angeles Galaxy. Assume a few more Chivas USA losses in a season that stretches for 32 regular matches and there will be plenty of sceptics charging that Mr Vergara and his co-owner, club president Antonio Cue, have stepped into the wrong league.

On the other hand, what if the sceptics are wrong? The *gringos* who run Major League Soccer (MLS) are betting that Chivas USA is the ingredient the 12-club league now needs to establish itself, after nine seasons of red ink, as a profitable part of America's sporting landscape. There are three reasons to think they may be right.

The first is demographics. MLS reckons that half of its 50m fan base is Latino. Moreover, that segment (two-thirds of it Mexican in origin) is growing. There are now around 40m Latinos in America—some 13% of the population—and by 2025 their number is set to increase to around 61m, or 18% of the population.

The second reason is the strength of the Chivas brand. Chivas USA is the offspring of Mexico's Club Deportivo de Guadalajara—known as Chivas, or "goats", in a 1948 insult that later became a badge of pride. Chivas Guadalajara, whose fan-friendly policy is to employ only Mexican players, has long been one of Mexico's ten most-recognised brands and when Mr Vergara, who made his fortune selling nutritional supplements, bought the club in 2002, he immediately saw the potential to export the brand north of the border. Instead of Mexicans in America giving their loyalty to teams in Mexico alone, why not give them a chance to be fans at home, too?

And why not, in the process, please Honda, Budweiser, Radio Shack and the rest of the league's heavyweight sponsors, and also attract new team sponsors such as Bank of America, Home Depot, Corona and McDonald's? MLS officials note that, through a deal with Fox Sports West in Los Angeles, Chivas USA (22 of whose 26 players are Latino) is part of the first TV rights deal for an individual team in MLS history—and is on its way to surpassing all other MLS teams in sponsorship revenue.

And the third reason? Mr Vergara talks of the "passion" that comes from competing with a rival, and has cleverly found one. The MLS commissioner, Don Garber, admits that the league, anxious to expand its geographical range, tried hard to convince Chivas USA to set up in Houston or San Diego. Mr Vergara insisted on Los Angeles, where half the population is Latino, and—on top of the $10m fee to join the league—he was willing to pay another $15m to the Anschutz Entertainment Group (AEG) to compete in the Los Angeles market against AEG's Los Angeles Galaxy and to use Galaxy's custom-built Home Depot Stadium. Given that last weekend's match attracted a sell-out crowd of 27,000, Mr Vergara's point—"Passion is contagious"—is surely proven.

Meanwhile, MLS remains a pygmy in American sport, with an average match attendance last season of just 15,600—compared with over 60,000 for all but two teams in America's 32-strong National Football League. The MLS players are poorly paid: only last November did they win a collective agreement which will provide them with pension benefits and raise their pay from a minimum of $28,000 this year to $34,000 in 2009. On the other hand, MLS is far more businesslike than the previous North American Soccer League (which imported overpaid and over-the-hill foreign stars and went bust in 1984), and has a marketing subsidiary that ensures that 95% of its games are televised live. Moreover, nowadays young

Americans play soccer and have a national team they can admire (it reached the quarter-finals of the 2002 World Cup).

That leaves just one intriguing question about the future of American soccer. Will Chivas USA be a one-off or the start of a trend? There is talk that Chivas Guadalajara's great rival, Club America of Mexico City, will start a team north of the border, perhaps in Houston. And if Mexico's teams can reproduce their tribal rivalries in America, perhaps others will follow suit—from Real Madrid and Barcelona to Liverpool and Arsenal. As the marketing types like to say, soccer is “the world game”—with only America left to conquer.

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Siemens

A European giant's Achilles heel

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The new boss of Siemens must fix the company's troubled handset business

KLAUS KLEINFELD'S honeymoon as the new boss of Siemens is over. After almost 100 days at the helm of one of Europe's biggest conglomerates, the man who was praised as the “wonder boy” of German business is now expected to act resolutely to tackle the problems of the company's ailing mobile-phone division. His opportunity came at the presentation of the company's latest quarterly results on April 27th, when Mr Kleinfeld said Siemens may give up control of the handset business. But even this did little for the confidence of investors, and the value of Siemens's shares ended the day down.

Siemens's net profit fell to €781m ($1 billion) in its second quarter ended March 31st, down by 35% compared with the same period last year. The company is being weighed down by continuing losses at its mobile-phone division, which lost €138m during the company's second quarter, having previously lost more than €140m in each of the two preceding three-month periods. As a result, Siemens gave warning that it might not reach its goal of an increase in profit for the full year.

Siemens will now put its mobile phone division into a separate legal entity, said Mr Kleinfeld. This could be a prelude to a sale, although the company says it is still looking into various options, including partnerships, where it might cede control of the business.

This is hardly new: Siemens has been scouting around for a partner for its mobile business for some time. Shortly before Mr Kleinfeld took over, his predecessor had promised to “fix, close, sell or partner” the division. Fixing it was tried without any success. Closing it would do enormous damage to the image of Siemens, one of Germany's leading firms, and would mean taking on the country's powerful unions. Moreover, laying off some 15,000 workers at the division's German plants could cost €900m, according to analysts' estimates. This leaves a sale or joint-venture as the most likely outcomes.

Various partners have been mooted in the German press. Acer, a Taiwanese computer-maker, has denied reports of its interest. America's Motorola, the world's second-largest handset-maker, will neither confirm nor deny talking to the Germans. Nor will Nortel Networks, a large Canadian telecoms-equipment firm. Indeed, over the past few months nearly all the big handset-makers are rumoured to have been talking to Siemens, whose shrinking share of the global handset market has now relegated it to sixth place after the Sony Ericsson partnership. Siemens is desperate to find a partner, says James Stettler, an analyst at Dresdner Kleinwort Wasserstein, an investment bank.

Industry insiders think an Asian company keen to gain a foothold in Europe would be the most likely partner or buyer. Theo Kitz at Merck Finck, a private bank in Munich, says teaming up with Huawei, a Chinese technology company, or Ningbo Bird, a Chinese handset-maker, would make sense. Siemens knows both companies. It already has a joint-venture with Huawei in telecoms equipment, and joined forces with Ningbo Bird to market handsets last year.

Cheap phones, big trouble

How has the handset business become such a thorn in Siemens's side? The firm's troubles with mobile phones started in 2001. At the time it could have sold the business to a South Korean or Japanese buyer, but decided instead to concentrate on the low end of the market. Relatively cheap handsets seemed to offer opportunities, especially in Asia where subscriber growth was booming. Yet at the beginning of 2004 Nokia, the market leader, slashed its prices, putting Siemens under increasing pressure. In the autumn, another disaster struck: Siemens announced there was a problem with some of its phones—they might suddenly make a screeching noise that could damage the user's hearing. This ruined the company's

Christmas sales.

Some analysts argue that Siemens should have never gone into making handsets because it is a completely different business from its other manufacturing activities, which range from trains to medical equipment and power turbines. Mr Kitz says that, as a provider of mobile networks, Siemens expects it should sell handsets too. But rather than set up production in a country with labour costs as high as Germany, Siemens could have entered into a joint-venture with an Asian manufacturer. Some investors would like Siemens to stick to its other manufacturing activities, most of which are doing well.

Mr Kleinfeld promises he will sort out his company's weak units in the next 18 months or two years. Mobile phones will be his top priority. The uncertainty over the division is very damaging to the group, says Ben Wood at Gartner, a consultancy. Siemens's share price has fallen by nearly 10% in the past three months. Mr Kleinfeld got the top job because of his reputation as a tough cost-cutter who pulled the company's American subsidiary out of the red. Siemens's shareholders are waiting impatiently for another turnaround.

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Lord Trotman and Ford

A hard lesson in globalisation

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Alex Trotman, who died this week at the age of 71, rescued Ford for a while, but at a price which has consequences today

FORD was always a more international company than its two Detroit rivals, General Motors (GM) or Chrysler (before its takeover by the Germans). As long ago as the late 1960s, Ford of Europe was set up to add regional strength to the carmaker's European operations. It was ahead of its time and became a model for other, mainly American companies, venturing abroad. While the suits in GM's headquarters could all have been stamped out of the same press, Ford's top management ranks have often featured executives from Britain, Argentina and Germany. But there is also an accidental reason for this: Henry Ford II's fierce temper wasted cohorts of senior managers in Detroit, leaving only generals in the provinces to survive and move up the ranks after he had gone.

No one exemplified Ford's international character more than Alex Trotman, a London-born Scot, who rose to become chairman and chief executive in 1993, a year after the company made a record loss of $7 billion. When he arrived in the top job, Ford's shares were worth $11.45; when he left five years later, they were $32.25, and Ford was making nearly $7 billion as the most profitable car company in the world. It was helped by a boom in sport-utilities and other light trucks based on Ford's F-150 model, which even today sells nearly a million a year. In the late 1990s, it looked only a matter of time before Ford would overtake GM to become the biggest car company in the world.

It was not to be. Today Ford's shares are below $10, its first-quarter profits have slumped 38% to $1.2 billion, its American market share is historically low at 18%, and the chairman and chief executive, Bill Ford, the original Henry's great-grandson, has just abandoned the goal of getting back to Trotman-era profits by the end of next year.

This roller-coaster record raises important questions. How was it that Lord Trotman (as he became in 1999) quickly turned Ford around, only to leave it so fragile that its core car business fell into loss ten years later? He was obsessed by the challenge of globalisation of the car industry. He was afraid, for instance, of going down in history as “the chairman who missed China”, and made umpteen trips there bearing gifts of leather-bound copies of the Shakespeare plays so beloved of China's then leader, Jiang Zemin. An autodidact, Lord Trotman shared this love, and no Trotman speech was complete without a byte from the bard. Unfortunately, China went on to choose GM and Volkswagen over Ford to partner its local producers.

Brought up in a poor district of Edinburgh, he cycled around as a butcher's delivery boy (while another local likely lad, one Sean Connery, delivered milk to the Trotman home) and dreamed of greater things. Lord Trotman joined Ford as a purchasing trainee straight from national service as a navigator in the Royal Air Force. When he realised in 1969 that there were no promotions or transfers from Ford's Dagenham base in Britain to America, he resigned. He then turned up to apply for a job at Ford's world headquarters at Dearborn, on the outskirts of Detroit. Within three years he was director of product planning for the whole company.

Lord Trotman soon set up a sweeping reorganisation to transform Ford from several regional groups (North America, Latin America, Europe, Asia Pacific) into one seamless global operation with factories and sales companies reporting instantly across oceans spanned by broadband links. The project was called Ford 2000 and constituted one of the most fundamental restructurings in the 1990s' rush to re-engineer firms to exploit computing. It failed, just as badly as a similar overhaul at GM a decade earlier.

Ford 2000 drained power from the regions back to Dearborn. This was no place for executives to keep their fingers on the pulse of consumer demand in California or Connecticut, far less Frankfurt or São

Paulo. Nor did it make any sense for a factory manager in Cologne to report to a global head of manufacturing 3,000 miles away. Many line managers were deeply sceptical, but afraid to declare the emperor naked. Lord Trotman's successor as chief executive, Jacques Nasser, a hyperkinetic Australian, quickly reversed large parts of Ford 2000: South America and Europe regained regional power.

The world car that wasn't

The upheaval of Ford 2000 caused the firm to take its eye off the ball as Japanese and European competitors stepped up competition by opening factories in America, even challenging Ford in the markets for large sport-utility and other light trucks, where it made most of its profits in the 1990s. Lord Trotman would admit in private that much of his globalisation vision did not work out as well as it should have. The Ford Mondeo, which was supposed to be a world car, was a hit in Europe but flopped as the Ford Contour and Mercury Mystique in America. What did work was linking engineering throughout Ford's empire, enabling parts to be shared among different models. This brought to Ford some of the techniques that made Toyota great, and lopped $5 billion a year off costs.

Lord Trotman's vision ultimately faltered because of poor execution and Stalinesque over-centralisation. Today even Toyota, the industry's star producer, recognises the same dangers as it conquers the world's car markets: it is desperately training foreign managers and supervisors in Japan, and transferring engineering work to Detroit and design to California or the south of France, to avoid being too centralised and too Japanese.

Lord Trotman's other mis-step may have been his choice of successor as chief executive: Mr Nasser was a brilliant manager with ideas well ahead of his time; but he tried to do too much too quickly, and alienated managers, dealers, suppliers and ultimately the Ford family, which holds about 40% of the company's voting shares. Chairman Bill Ford fired him in October 2001. Lord Trotman had managed the family by paying them high dividends. Unfortunately this siphoned off to the Fords and other shareholders money that would have been better spent developing models to take on Toyota. But that did not stop the Fords easing Lord Trotman out of the chairmanship a year early in 1998 and putting in Bill Ford to work with Mr Nasser. Lord Trotman thought it was a grave mistake to have the family back in charge. Nothing that has happened since suggests he got that judgment wrong.

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Face value

Europe's latest would-be media mogul

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Axel Springer

Mathias Döpfner wants to turn Axel Springer into an international media conglomerate

EVER since the fall from grace in July 2002 of Jean-Marie Messier, the hubristic former boss of French media conglomerate Vivendi, and Thomas Middelhoff, ousted soon after from Germany's Bertelsmann, European media executives have kept a low profile—unpicking their predecessors' visions and selling assets. But now there is a new contender for the role of Europe's leading media tycoon: Mathias Döpfner, chief executive of Axel Springer, a big German publishing firm. He is poised to buy ProSiebenSat.1, a big television company, and wants to expand elsewhere in Europe. At a dinner in New York for Mr Döpfner last winter, he came across as “a man of extraordinary ambition who wants to rule the world,” says one of the guests, who muses that he might even match Mr Messier in the scale of his aims.

Axel Springer already owns 11.8% of ProSiebenSat.1, and Mr Döpfner has had talks with some of the private-equity investors who have controlled the company since August 2003 about lifting the stake to over 50%. Last week the likelihood of a deal in the near future increased as a clause that penalised the private-equity investors if they sold before August was lifted.

Buying Germany's ProSiebenSat.1 would be Mr Döpfner's boldest move yet in a rapid rise to the top. In 1998 he joined Axel Springer, which publishes *Bild*, by far Germany's biggest newspaper, to edit *Die Welt*, a smaller title. He became chief executive in 2002 aged 39, with the backing of Friede Springer, widow of Axel Springer, the founder of the eponymous firm. She controls 60% of its shares. Ms Springer, aged 62, has become extremely fond of Mr Döpfner, German media executives say, especially as his charisma and intellectual vigour remind her of her husband, an intensely political man who, until his death in 1985, campaigned for West and East Germany to be reunified.

Such is the bond between the chief executive and owner, that Mr Döpfner may feel the need to prove that he is a talented businessman in his own right. So far he has done a good job of steering Axel Springer through a few years of plummeting advertising revenues. Thanks to shedding one-fifth of the workforce—an unusual move for a German firm, he notes—Axel Springer's operating-profit margin (earnings before interest, tax and amortisation) has risen from 9.3% in 2003 to 14% in 2004. Its operating profit of €336m ($418m) last year was its highest ever, and its debt is low. In the past two years, despite tough market conditions, it has launched 24 newspapers and magazines in Germany and beyond. “I believe in anti-cyclical behaviour,” says Mr Döpfner of his aggressive strategy.

Now he has a strong platform from which to expand. One option, says Mr Döpfner, is to continue to expand abroad in print. Last year, Axel Springer tried to buy Britain's *Daily Telegraph.* In 2003 it launched a paper in Poland called *Fakt*, which is now the country's biggest, and it is researching markets in western Europe outside Germany with a view to future launches of other mass tabloids. Buying ProSiebenSat.1 would create a smaller version of Bertelsmann, a media conglomerate that owns TV channels as well as magazines and a music label. Moving into television makes sense as TV stations would benefit from promotion in *Bild*, and vice versa. If the venture goes well, and does not cost too much, it could also safeguard Axel Springer's future, since growth is increasingly hard to squeeze from print.

Some in the media industry prefer to compare Mr Döpfner to Mr Middelhoff, not to Mr Messier, whose debt-laden acquisition spree would after all be hard for anyone to match these days. Mr Döpfner is a rising star, but he is only an employee. If his vision for Axel Springer reaches beyond Ms Springer's horizon, she may get rid of him, as the controlling Mohn family at Bertelsmann dumped Mr Middelhoff when he sought to float the company. So far, however, it appears that Mr Döpfner has Ms Springer's backing for a purchase of ProSiebenSat.1—as long as her control of Axel Springer is not diluted.

It's the politics, stupid

In another important way, Mr Döpfner is very different from all of his generation of young western media managers. Like an old-school mogul such as Rupert Murdoch or Ted Turner, he has strong political convictions and uses the company he runs to promote them. In this he continues the tradition of the late Mr Springer, who in 1967 incorporated his own political beliefs into the company's articles of association, such as upholding Israel's right to exist.

The firm's political energy dimmed somewhat after Mr Springer's death, but Mr Döpfner has revived it. On September 12th 2001, he added the principle that the firm must show “solidarity with the United States of America in the common values of free nations.” For his support of America's recent foreign policy, one rival German media executive dubs him “Mr Neo-con”. Mr Döpfner is close to Helmut Kohl, Germany's once-dominant Christian Democrat chancellor, and he dislikes the politics of the “1968 generation” of German politicians, which includes the current chancellor, Gerhard Schröder. Mr Döpfner's allegiances make some journalists uneasy. “It is always difficult for a big newspaper business to have close relationships with politicians,” says Claus Larass, a former vice-chair of Axel Springer's management board. Mr Döpfner says the newspapers have editorial independence, and points out that *Bild* backed George Bush in the American election, but its Sunday edition did not.

Mr Döpfner is puzzled by the fact that American media firms are so much bigger and stronger than European ones. As for the German print industry, he says, it has enjoyed comfortable times for many years and is still complacent compared with American firms. If Mr Döpfner keeps getting his way at Axel Springer, there will be at least one European media company that plays according to the precepts of American capitalism.

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IT in the health-care industry

The no-computer virus

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Getty Images

The inability, and reluctance, of doctors and hospitals to use information technology more widely is killing thousands of people

“WHETHER or not a treating doctor has Alex's full medical record available can literally mean life or death,” says Cynthia Solomon of Sonoma, California. Her son Alex, now in his 20s, grew up with hydrocephalus, a rare and life-threatening condition in which fluid accumulates in the brain and needs to be drained through special shunts. So Ms Solomon had no choice but to become a walking filing cabinet of records on allergies, pituitary-gland problems, brain scans and “every piece of paper a doctor ever wrote about Alex's case.” She worried constantly. There were close calls, such as the time that Alex went on a trip and ended up, unconscious, in some distant hospital. Ms Solomon could not get his paper records to the new doctor and had to pray that Alex would not get the wrong antibiotics or be laid on his back, which might have killed him.

To Ms Solomon the information problem with health care today is so glaring that she eventually took matters into her own hands, as best she could. She took out a second mortgage, hired software programmers and developed a computer system, called FollowMe, for online medical records that any doctor can, in theory, access anywhere and anytime. FollowMe will not fix the world's health-care industry—only about 400 families now use it—but Ms Solomon has correctly identified the woeful, even scandalous, failure of the health-care industry worldwide to adopt modern information technology (IT).

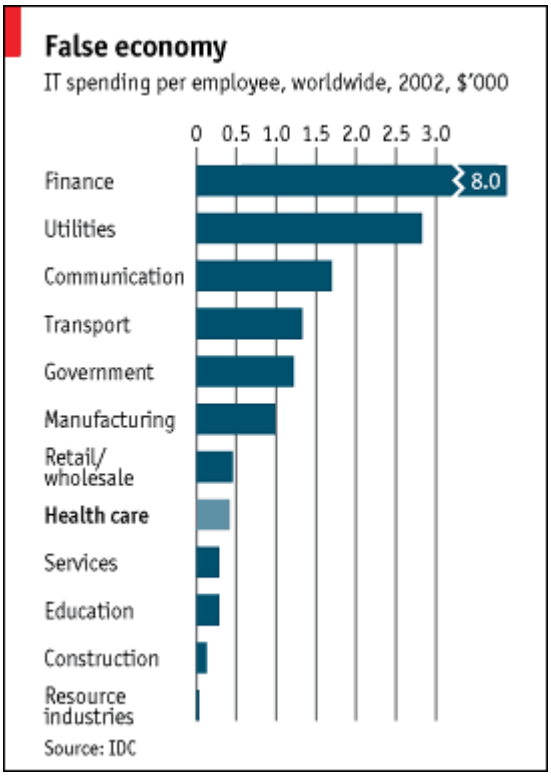
The solution seems obvious: to get all the information about patients out of paper files and into electronic databases that—and this is the crucial point—can connect to one another so that any doctor can access all the information that he needs to help any given patient at any time in any place. In other words, the solution is not merely to use computers, but to link the systems of doctors, hospitals, laboratories, pharmacies and insurers, thus making them, in the jargon, “interoperable”.

This may be obvious, but today it is also a very distant goal. According to David Bates, the head of general medicine at Boston's Brigham and Women's Hospital and an expert on the use of IT in health care, the industry invests only about 2% of its revenues in IT, compared with 10% for other information-intensive industries. Superficially, there are big differences between countries. In Britain, 98% of general practitioners have computers somewhere in their offices, and 30% claim to be “paperless”, whereas in America 95% of small practices use only pen and paper. But, says Mr Bates, this obscures the larger point, which is that even the IT systems that do exist cannot talk to those of other providers, and so are

not all that useful.

It shows. People on the right side of the digital divide increasingly take for granted that they can go online to track their FedEx package, to trade shares, file taxes and renew drivers' licences, and to do almost anything else—unless, of course, it involves their own health. That information, crumpled and yellowing, is spread among any number of hanging folders at all the clinics they have ever visited, and probably long since forgotten about. The most intimate information is, in effect, locked away from its owners in a black box.

Many IT bosses find this baffling. John Chambers, the chief executive of Cisco Systems, the world's largest computer-networking company, says that health care is down there with mining as the most technophobic industry. Jeff Miller, a manager at Hewlett-Packard, a large computer-maker, calls health care “one of the slowest-adopting industries”, which is especially surreal because hospitals often splurge on the latest CAT-scan or MRI equipment, but are stingy with their back-office systems. It is, he says, like “Detroit putting out futuristic hydrogen cars but using paper processing and manual labour for the manufacturing.”



This has perverse consequences. According to the Institute of Medicine, a non-governmental organisation in Washington, DC, preventable medical errors—from unplanned drug interactions, say—kill between 44,000 and 98,000 people each year in America alone. This makes medical snafus the eighth leading cause of death, ahead of car accidents, breast cancer and AIDS. “It's like crashing two 747s a day,” says Mark Blatt, who was a family doctor for 20 years before he joined Intel, the world's largest semiconductor-maker, to manage its health-care strategy. There should, he says, be more outrage.

Rich pickings

Improving computer systems, of course, would not eliminate all medical errors. But most researchers believe that they would reduce them dramatically. One study in America estimates that IT could prevent 2m adverse drug interactions and 190,000 hospitalisations a year. Another study reckons that electronic ordering of drugs can reduce medication errors by 86%. By contrast, research published in March in the *Journal of the American Medical Association* warns that IT, if the software is badly designed, could actually increase errors. But almost everybody agrees that well-designed IT is essential to improving quality in health care.

The same goes for its cost, an increasing burden to ageing societies in the rich world and even in poor countries such as China. HP's Mr Miller reckons that redundancy and inefficiency account for between 25% and 40% of the $3.3 trillion the world spends on health care every year, and could be eliminated

with proper IT. A study from a clinical research centre at Dartmouth College in New Hampshire reaches a similar conclusion, estimating that a third of America's $1.6 trillion in annual health-care spending (as of 2003) goes to procedures that duplicate one another or are inappropriate.

Estimating how much IT could save, after taking account of the considerable cost of applying it widely, is not easy. Writing in *Health Affairs*, an American journal, in January, Jan Walker and five colleagues (including Mr Bates) at the Centre for Information Technology Leadership in Boston concluded that a fully interoperable network of electronic health records would yield $77.8 billion a year in net benefits, or 5% of America's annual health-care spending. This includes savings from faster referrals between doctors, fewer delays in ordering tests and getting results, fewer errors in oral or hand-written reporting, fewer redundant tests, and automatic ordering and re-fills of drugs. It does not include, however, perhaps the biggest potential benefit: better statistics that would allow faster recognition of disease outbreaks (such as SARS or avian flu).

The key word in all such estimates is always “interoperable”, says Mr Bates, pointing to the differences between two pilot programmes in America. In one, the Californian city of Santa Barbara set up a city-wide peer-to-peer network (in which the computers of different practices and clinics can talk directly to one another). This allows doctors, say, to pull up portable-document-format (PDF) files from one another. But the information in them—text, with numbers buried in it—is “unstructured” and so not very useful. It is the equivalent of faster faxing, and not what people mean by interoperability.

The other American pilot, located in Indianapolis and managed by the Regenstrief Institute, a non-profit medical-research organisation, comes closer. It has created a city-wide network in which physicians can, with the patient's permission, log on to a complete medical history that includes all previous care at the 11 participating hospitals. Already, the database contains 3m patient records, 35m radiology images, 1.5 gigabytes of diagnoses, 20m order-entries by physicians, and so forth. The key difference is that, wherever possible, the data is entered in a structured and formatted form. Test results are in neat rows and columns and tagged in a way that every other computer can recognise and compare against other appropriate numbers. This is the sort of IT solution that not only cuts waste and errors, but also helps physicians to make better decisions.

What, then, would the ideal IT architecture of health care in future look like? It would start, says Intel's Mr Blatt, with wireless data entry by nurses and doctors. Practices and clinics would have secure “Wi-Fi hotspots”—using a radio technology called 802.11—and staff would walk around with small handheld devices that transmit all inputs to the database in the back office. Another source of input might be tiny radio-frequency identification (RFID) chips that are attached to patients and send basic information when they come in range of a radio field. Patients could also add inputs themselves. A firm called Health Hero, for instance, makes a cute little device called a Health Buddy that patients take home and plug into their telephone lines. A couple of times a day, it asks them basic questions or takes their heart rate, and sends the data to the doctor.

Behind the scenes, all this data would be formatted and stored according to recognised standards. Contrary to widespread concerns, this does not require a single central repository or any other particular hardware architecture. Instead, it relies on common software protocols and formats so that individual computer applications can find and talk to one another across the internet. Most of these standards, such as XML, SOAP and WSDL, already exist and are used by many industries. Others, such as HL7, LOINC or NCPDP (spelling them out makes them sound no less obscure) are unique to the health-care industry and govern data interchange between hospitals, laboratories and pharmacies. On top of these, there need to be hacker-proof layers of authentication and password protection so that only the right people get access.

There is still some work to do to refine these technologies. In January, eight of the world's largest IT companies—Microsoft, Oracle, IBM, HP, Intel, Cisco, Accenture, and Computer Sciences—teamed up to form an “interoperability consortium” for that very purpose. In general, however, “the technology is very, very ready,” says Robert Suh, the technology boss at Accenture, a consultancy that is helping Britain's National Health Service (NHS) and regional governments in Australia and Spain to implement electronic health records.

In fact, Britain's—or rather England's—NHS is among the pioneers worldwide. This year, it will begin rolling out a £6.2 billion ($12 billion) project in which five regions in England will form networked IT“clusters” so that 18,000 NHS sites, including all family doctors and acute-care hospitals, can share standardised information on patients. These clusters will eventually be linked through a “spine” (called the N3 and run by BT) with huge bandwidth to create, in effect, one national network. Scheduled to be completed by 2010, the plan, like most IT projects, has had some early hiccoughs and has been greeted

with cynicism by some doctors. But other countries will be looking to it as a model.

Another pioneer is Denmark, which began rolling out a similar network for the region around Copenhagen in 2001 and expects to complete it by 2007, before covering the rest of Denmark. Torben Stentoft, the boss of Hvidovre Hospital in Copenhagen and the head of the city's network, says that his main concern is the nitty-gritty of dealing with all of his legacy computers which need to be tweaked or replaced. But he feels that he has his society's full support. “Nobody is against this. Everybody is asking for it,” he says. In particular, the Danes find nothing terribly controversial in the idea of a national health identification number, which they already have, and spend little time worrying about how to fund the new systems, since their tax kroner are doing that.

American exceptionalism

Mr Stentoft is in an enviable situation, especially if viewed from America, which has the world's largest and costliest health-care system. America is as enthusiastic as any country about electronic health records. President George Bush has embraced the idea, and he spoke about it publicly some 50 times last year. He has even appointed a “national co-ordinator for health information technology” to create a fully interoperable, nationwide network within ten years. But America's health-care system is so different from others that it faces some special complications.

The first big difference is that, whereas most other rich countries have “single-payer” (ie, government-run) health-care systems, America has a highly fragmented industry with many private providers and insurers doing business alongside large government programmes (such as Medicare, for old people). This means that in funding a new IT infrastructure “the financial incentives are not exactly aligned,” says Mr Bates. In single-payer systems, the expenditures come out of the same pocket—the taxpayer's—that the savings go into. But in America, he estimates, the practices and hospitals that pay for the IT only get 11% of the cost savings, with the rest going to insurers and employers (who buy the insurance). The resulting mismatched incentives, says Mr Bates, could derail the entire project: “It's a situation where America could end up far behind.”

This calls for some combination of government subsidies and private-sector financial incentives, argues the Markle Foundation, a charity in New York that is dedicated to the proper use of IT in health care and national security. Over half of all doctors in America work in small practices. And, say Markle's researchers, a typical practice (defined as five doctors handling 4,000 patient-visits a year) would make losses if it had to pay the estimated $15,000 a year for three years that it costs to install an interoperable IT system and to learn how to use it.

The practices, Markle concludes, therefore need incentives of $3 to $6 per patient-visit, or $12,000 to $24,000 a year, which comes to $7 billion-14 billion a year for three years, or between 1.2% and 2.4% of total ambulatory-care revenues. The trickier question is how to administer this largesse, whether it is provided by insurers and employers or the government. The money could be disbursed directly and specifically for the IT systems. Or it could be given indirectly in some sort of pay-for-performance arrangement.

The other big difference between America and countries such as Denmark is public perception of the robustness of privacy laws. The European Union has stricter privacy laws than America, and Europeans have relatively more confidence in them. For information sharing, “ours is a much more porous environment,” says Alan Westin, a professor at Columbia University who has written several books on privacy issues. This is not primarily an IT issue, although the internet does seem to raise the stakes. In February, one database broker, ChoicePoint, had to inform some 140,000 people that it had accidentally sold sensitive information about them. Also in February, a statistician of the health department in Palm Beach County, Florida, inadvertently e-mailed a list of more than 6,000 HIV carriers to all employees of the department.

This makes many Americans suspicious of plans that involve sharing sensitive health information. Although opinion polls in Europe show overwhelming support for interoperable medical databases as long as these are properly regulated, a February poll by Harris Interactive found that Americans are currently evenly split, with 48% saying that the benefits outweigh the privacy risks, and 47% saying the opposite. Some 70% of Americans in the poll worried that sensitive data (on sexually transmitted diseases, say) might leak.

This is unfortunate, says Michael Callahan, a health-care lawyer at Katten Muchin Zavis Rosenman, a law

firm in Chicago, since a weighty tome of legislation was passed in 1996 precisely to prevent such leaks. Called HIPAA (short for “health insurance portability and accountability act”), the law defines strict codes for sharing medical data and takes effect in stages, with a large chunk of compliance falling due this month. HIPAA creates a national “floor”, says Mr Callahan, with some states following even stricter statutes, and involves the federal government in enforcement and prosecution. HIPAA is not quite as strong as equivalent laws in Europe, he thinks, but strong enough.

Mr Westin disagrees. The HIPAA rules are “not at all adequate” for shared medical records, he says. So the only way to sell such records to the American public, he says, is to design the whole system with privacy as a priority. This rules out any form of medical identification card, to which Americans would be hostile (even though they think little of giving their social-security numbers, a de facto ID, when renting DVDs). It also means avoiding a central database that could be hacked. The best approach, says Mr Westin, is to emulate the “locators” used by American police. Cops in California who arrest a New Yorker cannot access information about that person directly, but can view a directory of such information and request it from the authorities in New York. Finally, rather than allowing sceptics to opt out of the new system, says Mr Westin, the system should from the start require patients actively to opt in.

As the Markle Foundation puts it, the technology must be designed in such a way that “decisions about linking and sharing are made at the edges of the network” by patients in consultation with their doctors, and never inside the network. This goes to the very heart of the matter. For even though it is fine to start hoping for the day when interoperable electronic health records create vast pools of medical information that could be used to find new cures and battle epidemics in real time, their ultimate purpose is to make one simple and shockingly overdue change: to enable individuals, at last, to have access to, and possession of, information about their own health.

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The American economy

Wise men at ease

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From The Economist print edition

America's central bankers are relaxed about the current-account deficit. Does that mean it is time to panic?

IT LOOKS like anything but coincidence. Lately almost all the governors of America's Federal Reserve have made speeches on the country's current-account deficit, now 6.3% of GDP and rising. Several have sounded remarkably relaxed. Yes, they say, the gap's big, but it's not America's fault; most likely, it will be closed without too much trouble. One, Roger Ferguson, caught the mood well: "My sense is that the implications of current-account adjustments for US economic growth and inflation will most likely be benign."

Not everyone is so cool. Stephen Roach, chief economist at Morgan Stanley and a veteran gloomster about America's imbalances, is fuming. He accuses the Fed governors of "attempting to rewrite conventional macroeconomics" with "revisionist theories" that shift attention from what he thinks is the real problem: America's "absurdly low real interest rates."

Even some normally supportive analysts are worried. Ted Truman, of the Institute for International Economics, who spent more than 20 years as director of the international finance division of the Fed, wrote recently that too many Fed officials are seen as "cheerleaders" for a smooth adjustment, rather than giving warning that the process might be unpleasant. "Overconfidence", he argued, "can undermine the credibility of monetary policy."

Contrary to appearances, the Fed governors do not co-ordinate their speeches. And the tone varies a lot. Some, such as Edward Gramlich or Timothy Geithner, president of the Federal Reserve Bank of New York, are worriers. Mr Gramlich frets about the budget deficit and America's low saving rate. Even if the current situation is stable, he argues, "it is much more stable for the US to increase its own national saving." Mr Geithner worries aloud about the financial system's ability to withstand sudden macroeconomic shocks.

Alan Greenspan, the Fed's chairman, takes up (as ever) a carefully nuanced position. He states plainly that the current-account gap cannot widen forever, but emphasises that these days global capital markets are so big, closely integrated and flexible that countries can run larger imbalances, and that these can be unwound without causing economic trouble.

The most sanguine views belong to Mr Ferguson, the Fed's vice-chairman, to Don Kohn and to Ben Bernanke, who was recently nominated as head of George Bush's Council of Economic Advisers. All three

make two points: first, that it is wrong to say that the current-account gap was made in America or that American policy changes, such as tightening the budget, would do much to fix it by themselves; second, that there is little reason to believe that America is heading for a hard landing.

The central bankers are right to point out the global nature of America's imbalances. Foreigners have been keener to finance America's external borrowing at extraordinarily low interest rates than to invest at home. Thus America's big budget deficits and Americans' willingness to spend more than they earn have supported the global economy.

But the central bankers go further. Drawing on the Fed's internal macroeconomic model, Mr Ferguson argues that there is little quantitative evidence that fiscal deficits or a reduction in private saving caused the deficit. He and other governors cite a recent paper by Fed economists, which concludes that fiscal expansion has only a minor effect on the trade deficit. Loosening policy by 1% of GDP, says this study, worsens the current account by less than 0.2% of GDP. By implication, a reduction in the federal budget deficit would have a similarly small impact.

Few economists would dispute that budget deficits and current-account deficits are analytically distinct: in the late 1990s, the two moved in opposite directions, as the current-account gap widened while the budget deficit shrank. Nevertheless, the governors' efforts to play down fiscal policy may have gone too far. Whether or not budget deficits “caused” the external imbalance, tighter policy will undeniably make the current-account gap easier to close. A shrinking fiscal deficit makes it less likely that a falling dollar will result in higher interest rates. And all the governors imply that a weaker dollar is the key to cutting the current-account deficit.

A cheaper dollar helps to reduce America's imbalances by shifting economic production towards exports. Because the economy is already near full employment, this shift can occur only if domestic demand is reduced, for instance by tightening the budget. Otherwise, a cheaper dollar would cause the economy to overheat and interest rates to rise: that would either stall the economy or limit the decline in the dollar and the rebalancing of the current account. Fiscal discipline is thus an important part of the external adjustment even if it will not solve the imbalance alone.

Others point out that a large budget deficit may itself raise the risks involved in big external imbalances. Mr Truman, for instance, fears that when both deficits are large and expanding at the same time, confidence in American economic policy may be eroded and the risk of crises may rise.

The sunny side of the deficit

The optimists consider such crises unlikely. One argument is that industrial countries tend not to suffer hard landings caused by plummeting currencies and soaring interest rates. This is supported by another recent study by Fed staff economists, covering 23 current-account adjustments in rich countries—none, admittedly, with imbalances as big in absolute terms as America's. And another new strand of academic thinking suggests that big, rich-country debtors may actually have an advantage in current-account adjustments. This focuses on the impact of unexpected currency shifts on the valuation of a country's external assets and liabilities.

Thanks to the globalisation of capital flows, America's foreign assets and liabilities have both soared (see chart). With all of its liabilities in dollars and most of its assets in foreign currencies, America gets a wealth boost when the dollar drops. Gian Maria Milesi-Ferretti, an economist at the International Monetary Fund, calculates that between 2002 and 2004 more than 75% of the increase in America's net foreign indebtedness caused by the current-account deficit was offset by changes in the value of external assets and liabilities as a result of the dollar's fall. Thus a big external deficit does not necessarily imply a commensurate rise in net indebtedness to foreigners.

Even so, although the size of gross portfolio flows allows America to run bigger imbalances and although valuation effects may make adjustment easier, these factors do not render adjustment unnecessary; nor do they eliminate the risk of a hard landing. More important, even a gradual reduction in the current-account

deficit, which the sanguine governors all expect, could feel unpleasant. That is because America's domestic demand growth will have to grow more slowly than its GDP.

A recent analysis by Macroeconomic Advisers, a consulting firm, suggests that halving America's deficit over a decade, with GDP growth at its recent average, will require that annual domestic demand growth slow to 2.6%, more than a full percentage point below its average in 1994-2004. For America's consumers, that will be an unpleasant shock. Prudent central bankers should be preparing them for it.

"The United States and the World Economy" Edwin Truman. Paper delivered at Levy Economics Institute of Bard College, April 21-22, 2005

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America's stock exchanges

Redrawing the battle lines

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Consolidation looms, despite the uproar at the New York Stock Exchange

WHAT a roller-coaster week for John Thain, chief executive of the New York Stock Exchange (NYSE). On April 20th, to wide acclaim, he announced that the NYSE would take over Archipelago, an electronic exchange. A lot of the questions facing the Big Board—over electronic trading, demutualisation and a stockmarket listing—seemed to have been answered in one brilliant stroke.

Then the grumbling began. Quite a few on Wall Street muttered about Goldman Sachs's role in the deal. The investment bank, of which Mr Thain was president until he joined the stock exchange last year, advised both the NYSE and Archipelago. And it has interests on both sides: it owns Spear, Leeds & Kellogg, a firm of specialists (who match buy and sell orders on the floor of the NYSE), and a stake in Archipelago. Though the bank disclosed its conflicts, this has fuelled discontent among the NYSE's owners, its 1,366 seat-holders, and has encouraged Kenneth Langone, a former member of its board, who is threatening to mount a rival bid for the NYSE.

Whether Mr Thain's plan succeeds or is thwarted by Mr Langone, the underlying trend is the same: America's financial exchanges are being forced to change their corporate structures and ways of trading, and are consolidating as a result. Two days after Mr Thain unveiled his deal with Archipelago, the rival Nasdaq exchange and a private-equity group agreed to pay $1.9 billion for Instinet, an electronic market. Small fry in the fast-growing world of options could get swallowed too. Earlier this year, Archipelago bought the Pacific Exchange, an options market.

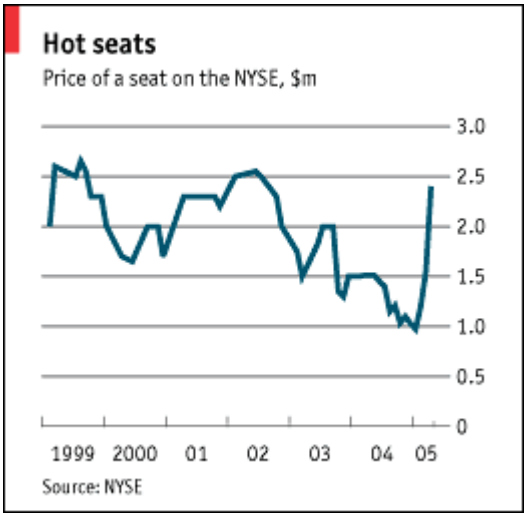
The deal with Archipelago would transform the 213-year-old NYSE from a member-owned organisation to a publicly held company—a switch that other markets, such as Europe's big stock exchanges and the Chicago Mercantile Exchange, where derivatives are traded, have already made in the past few years. Trading is getting faster: unlike the NYSE, where human specialists match buy and sell offers, Archipelago does everything electronically. Linking its systems with the NYSE's will be a chore, however. As for Nasdaq, its purchase of Instinet should help it regain some of the market share it has lost to electronic upstarts, including its new acquisition, in recent years. A retooled Nasdaq could compete hard against the NYSE.

Exchange users stand to gain from the deals if trading becomes faster, cheaper and more innovative. But Mr Thain faces stiff opposition from some seat-holders. “I feel we paid too much,” says William Higgins, who heads one group of members. “Not a single owner of the exchange was involved in making the deal.” The NYSE would get $400m in cash and 70% of a combined company; Archipelago would get the other 30%. Mr Higgins thinks the Big Board could have done better. Members could derail the merger, since two-thirds of them must give approval. Despite the misgivings of some, the deal seems to have revived the value of membership: the price of a seat has jumped to $2.4m, up by 50% in ten days (see chart).

Do the malcontents stand a chance? John Mack, former head of Credit Suisse First Boston, has agreed to gather information about the Archipelago deal at the behest of Mr Langone and several Wall Street banks. However, several Street-watchers think Mr Langone is a hothead. He is also in regulatory difficulties: Eliot Spitzer, attorney-general of New York, is suing him over the giant pay package given to Richard Grasso, Mr Thain's predecessor as chief executive, when Mr Langone was on the board (Mr Grasso is also being sued). Nevertheless Mr Langone's sniping might yet clear the way for other bidders.

Whatever happens in the battle over this particular deal, consolidation seems unstoppable. Going public should make it easier for the Big Board to participate. In buying Archipelago,

which is already listed, the NYSE would gain access to the capital market while avoiding the protracted process of demutualisation and flotation. The CME's market capitalisation has quadrupled since it went public in late 2002, and its prospective shopping list is now a subject of constant speculation.



As well as shareholders, regulators must approve the deals between Nasdaq and Instinet and between the NYSE and Archipelago. Jodi Burns of Celent Communications, a financial-technology consultancy, says there are “serious antitrust issues”. If both mergers go ahead, the landscape in America will have oddly returned to the early 1990s, says Benn Steil, an expert on exchanges at the Council on Foreign Relations. A decade ago Archipelago did not exist. Nasdaq has lost heavily to electronic upstarts; it now has just 55% of the trades in shares of companies it lists. The NYSE, which has benefited from protective regulations, has a share of around 80% in the trading of its listed stocks.

The stage may soon be set for the NYSE and Nasdaq, which is also based in New York, to slug it out in share trading. At the moment they do not compete much: Nasdaq's energy has been spent on rebuffing the electronic newcomers. Now that the lines have been redrawn, each is likely to go after the other's turf, and to try edging into derivatives or exchange-traded funds. Further ahead lie fights with European exchanges, some of which have shown interest in America. In a decade or so, regulators permitting, exchanges round the world may well have combined into a few giants—at least one of which will doubtless be based in New York City.

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American International Group

Keep reading

Apr 28th 2005 | NEW YORK
From The Economist print edition

Allegations of more shady accounting schemes arise at AIG

A STEADY, bitter, fascinating drip of information continues from the investigation into American International Group (AIG). By April 30th, the giant insurer is due to release its much-delayed 10-K, a filing with the Securities and Exchange Commission that must provide a full picture of its legal risks. If the 10-K is not filed—and there must be doubts, given the continuing discoveries by regulators and its own internal inquiries—AIG must provide an update on areas of concern and note possible reasons for further restatements of earnings. Whatever it says will be read avidly, not only by investors but also by all the bankers and analysts transfixed by the woes of a notoriously proud company.

One thing to watch is the company's relationship with Starr International, a Panama-based private company still headed by Hank Greenberg, AIG's former chairman and chief executive, that controls 12% of AIG's stock and much of its executives' compensation. In the past, AIG has said that Starr's funding comes from money set aside in the 1960s, when the insurer first went public, but questions have since emerged about whether AIG indirectly channelled money through Starr that could have contributed to compensation, and whether its relationship with Starr could have enhanced the remarkable consistency of its reported earnings. As scrutiny of AIG's Byzantine structure intensifies, worries about the capitalisation of its huge foreign life-insurance operations have also grown, not least because a healthy slug consists of shares in AIG itself.

Meanwhile, AIG faces new allegations. New York's insurance department and attorney-general say that during the 1980s and 1990s it deliberately misallocated premiums for workers' compensation to general revenue, thus avoiding a special tax to cover insolvent insurers. This would not have been damaging in New York, where the workers' compensation fund was flush, but it could have mattered in other states where workers' compensation firms have gone bust and where AIG is a large underwriter, such as California. Not surprisingly, on April 27th California's insurance commissioner, John Garamendi, said he would be investigating. None of the transactions was recent, but that may be little solace to AIG. How much more will drip out?

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Banking in South Africa

Absa's allure

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Barclays finally lays out its bid

EIGHT months have passed since rumours first fluttered that Barclays, a big British bank, rather fancied South Africa's Absa. Now Barclays has popped the question, offering 32 billion rand ($5.3 billion) for a 60% stake in the South African bank. That puts Absa's value at roughly half as much again as it was in August, and not surprisingly. Its share price, like those of most South African banks, has soared in the past few months, thanks to bumper profits and a rosier economic outlook.

Most observers think that Barclays, which quit South Africa in the apartheid years, will get its way quite soon. It says it will walk away if its proposal is turned down. This may scare enough minority investors (roughly a dozen of whom control four-fifths of Absa's stock) into selling on the offered terms. Or the British bank may be persuaded to nudge up its bid, which includes only a small premium atop the recent market price. No one expects the finance minister, Trevor Manuel, to block a deal. His boss, President Thabo Mbeki, has made his approval clear. And months of pondering by regulators threw up no serious concern about a foreign bank buying a local; indeed, Barclays should shake up a sleepy financial industry.

Absa is probably a prize worth having and would be Barclays' biggest single foreign investment. It is a successful retail bank, one of four big ones in the country, with more than 6m customers and some 670 branches. It is a fair bet that business, especially lending, will carry on booming. South Africa's economy is bowling along. The black middle class is growing fast, with many getting bank accounts and mortgages for the first time. House prices are rising nicely, while interest rates and inflation are both reasonably low.

Barclays should also be able to make Absa perform better. It expects to lift the South African bank's pre-tax profits by 1.4 billion rand a year. That would be a hefty increase: Absa made 2.5 billion rand in the six months to September, up by 16% from the same period in 2003. However, there is obvious room for improvement. Absa's corporate banking is widely said to be awful, largely because of poor managers. Barclays can bring in expertise from some of the 60-odd countries where it already operates. Its existing offices in South Africa are anyway focused on corporate finance.

More efficiency is essential. Absa, says one Johannesburg analyst, is “hopelessly overstaffed”. Around half of its expenditure goes on its 32,000 workers—nearly half as many as Barclays has, although the British bank's assets and market capitalisation are many times greater. There are some good reasons for this: for example, it needs a lot of security guards because of high crime rates. But if customers used less cash, and made more transactions with credit and debit cards, or by telephone or internet, more banking business would be automated. Barclays hints at this, but will not talk of job losses just yet.

Other foreign banks are thought to be interested in South Africa. Analysts often mention that Standard Chartered, another British bank, wants to expand its presence in the country. Its brand is more widely advertised there than before. “The focus is on organic growth,” says a spokeswoman, “but we would consider inorganic growth if the right opportunity came up.”

Barclays' offer, if completed, would be one of the biggest foreign investments in South Africa in the past decade. Local optimists hope that it will spur wider investor interest. The country is not without risks—notably, a recent history of currency volatility—but the economy is growing faster and looks more stable than for decades.

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Arthur Andersen

Back in court

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An auditor's last stand

Get article background

THE clients went long ago. The staff has shrunk from 28,000 to barely 200. And those still hanging around at Arthur Andersen are mainly consumed with fighting and settling litigation. Only this week the auditing firm agreed to pay $65m to WorldCom's shareholders who blame it for not uncovering the $11 billion fraud at the telecoms giant.

Yet Andersen is still trying, a little quixotically, to wipe its record clean—its criminal record, that is. In 2002, a Texas jury convicted the firm of “witness tampering” in connection with its destruction of masses of Enron-related documents in the weeks before the Securities and Exchange Commission (SEC) opened a probe of the energy firm. The Fifth Circuit Court of Appeals upheld the conviction, and the auditor appealed again. This week, the Supreme Court heard its case.

For Andersen, the ruling will not change much: even if it wins, it is hardly likely to rise from the ashes. But for lawyers everywhere the stakes are higher. At issue is whether they can safely advise clients to do things that, while legal in themselves, might be considered by prosecutors or courts to have questionable motives. When does advising a client to protect himself slide into thwarting a prosecutor's investigation?

The law forbids “corruptly persuading” another person to destroy documents with the intent of impairing an official proceeding; that amounts to witness tampering. The government says that Nancy Temple, an in-house Andersen lawyer, did just that when she e-mailed a partner in the Houston office, urging compliance with the company's document policy. What was on its face a mere reminder to shred non-essential documents set off the destruction of two tons of papers and tens of thousands of e-mails and electronic documents before the SEC came calling.

To most, this is a clear-cut case: Andersen simply disposed of incriminating evidence. But the company insists that it did nothing wrong. Ms Temple and others who encouraged the destruction acted in the belief that they were enforcing a perfectly legal policy. Andersen wonders how it could have been thwarting an official proceeding when an SEC probe had yet to be launched into Enron, much less into Andersen itself.

The government finds this risible. Andersen plainly knew an investigation was looming. Just days before Ms Temple sent her fateful e-mail, she had scribbled on a memo that an SEC probe was “highly probable”. And the auditor had already assembled an Enron crisis-response team that was meeting almost daily. Moreover, it insists that the document shredding in Houston was anything but routine: the volume was so great that the paper shredders could not keep pace and documents had to be shipped off-site.

Did Andersen break the law? All depends on the precise meaning of “corruptly persuades”, which courts have hitherto interpreted in different ways. The government insists that it is enough that Andersen was motivated at least in part by an “improper purpose” when it urged compliance with a perfectly legal policy. And the Texas jury was instructed to use this standard. Andersen prefers a narrower meaning: to persuade another by corruption or bribery. By this standard, it might well have been acquitted.

How the justices settle this question of grammar will have big implications for lawyers. If they uphold the verdict, document-shredding policies across America will hurriedly be reviewed.

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Economics focus

A licence to lose money

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Should central banks worry about capital losses?

LIKE most monopolies, central banking can be a highly lucrative business. America's Federal Reserve reported profits of over $23 billion in 2003. The Fed pays no interest on its liabilities, more than 90% of which are notes in circulation; meanwhile, it collects a tidy sum from its assets, principally safe, American government securities. For as long as people want to hold money in their pocket, not a lot can go wrong.

Not all central banks are as fortunate. The European Central Bank made a loss in 2004, for the second year in a row. The Bank of Japan (BoJ) has stuffed its balance sheet with Japanese government bonds that yield next to nothing. If the value of these were to fall sharply, the balance sheet would suffer.

Between them, the BoJ and other Asian central banks have amassed $2 trillion in foreign-exchange reserves, perhaps 70% of them in dollars. Should the dollar fall, these central banks will be exposed to heavy capital losses. In a widely cited paper last year, Matthew Higgins and Thomas Klitgaard, two economists at the Federal Reserve Bank of New York, calculated that a 10% appreciation of South Korea's won against the dollar and other reserve currencies would mean a capital loss for the South Korean central bank of almost 3% of GDP. China would suffer a loss of similar proportions, should the yuan gain 10%.

Those conclusions, grave though they were, were based on 2003 figures. Nouriel Roubini, of New York University, and Brad Setser, of Oxford University, look two years ahead. If China continues to amass reserves at its current pace, they calculate, a 33% appreciation of the yuan at the end of 2006 might inflict a capital loss of almost 15% of GDP.

Losses on such a scale would be deeply unsettling to any central banker used to the quiet life. But they would not be unprecedented. In 1989, for example, the central bank of Nicaragua suffered losses worth 13.8% of GDP, according to a working paper by Peter Stella of the International Monetary Fund. In the second quarter of the same year, Argentina's central bank made losses worth 23.5% of GDP. During Liberia's civil war, Mr Stella reports, the country's central bank was left in such disarray that it was unceremoniously ejected from the nation's clearing house. Central banks are supposed to stand behind domestic financial institutions and keep them in line. But in Liberia, the flock turned on its shepherd.

The losses of which Messrs Roubini and Setser warn may look as if they would similarly cripple Asia's central banks, or force Asia's taxpayers to bail them out, handing over perhaps 15% of annual output to restore their balance sheets. However, a central bank cannot “fail” in the way that a commercial bank can. Central banks enjoy, quite literally, a licence to print money. Thus, Liberia aside, central banks can always find the means to pay their obligations, because the “means of payment”—legal tender—is theirs to mint and print.

The trouble is, a central bank that is forced to rely on the printing press to make ends meet risks igniting inflation. Typically, Mr Stella finds, central banks that lose money year after year also lose their grip on prices. By 1989, for example, Argentina's inflation was so strong that the printing presses of the national mint reportedly broke under the strain. On the other hand, monetary disarray is not a necessary consequence of central-bank losses. Mr Stella highlights the counterexample of Chile. Despite making losses throughout the 1990s, Chile's central bank succeeded in taming inflation, bringing it down from 26% in 1990 to single digits by the middle of the decade.

Which example, Chile or Argentina, bears more relevance to Asia's central banks? In Argentina's case,

the losses its central bank sustained, and the inflation it unleashed, were both symptoms of the same underlying cause: a government that relied on the central bank to finance unaffordable spending.

Chile's government, by contrast, pursued a tight fiscal policy. Thus, Mr Stella argues, when the central bank created liquidity to cover its losses, the inflationary effect was offset by the government's contractionary stance. Why, then, was the central bank unprofitable in the first place? In part, the central bank made losses because of the exchange-rate policy the country pursued. Like central banks in Asia, the Central Bank of Chile holds large stocks of foreign-exchange reserves. It typically sells domestic securities to offset the dollar assets it buys. Unfortunately, the peso interest rate it pays on these securities is rather higher than the dollar rate it earns on its reserves.

The true price of all those dollars

The dollar reserves on the balance sheets of Asia's central banks are likewise a by-product of their governments' exchange-rate policies. In pursuit of a cheap currency, central banks have diverted savings into low-yielding foreign assets. These reserves are not needed to provide emergency cover for imports: the World Bank reckons that China has enough reserves to buy an entire year's worth. They are not needed to cushion the country from a sudden outflow of capital: China holds reserves worth 14 times its short-term foreign debt. In fact, economists at Goldman Sachs reckon that Asian central banks, excluding Japan, hold twice the reserves they need.

If these reserves were to lose their value, in local currency terms, the taxpayer might not rush to replace them. This is not to say that the central banks would suffer only a paper loss. The losses would be real but, as Mr Setser says, they are also “sunk costs”. There is now no way that Asia's central banks can sell their reserves, reinvesting the proceeds in higher-yielding assets, without triggering the very capital losses they would hope to avoid. If they try to rouse these dormant assets, they will empty them of value. If they wish to preserve their worth, they must let them lie.

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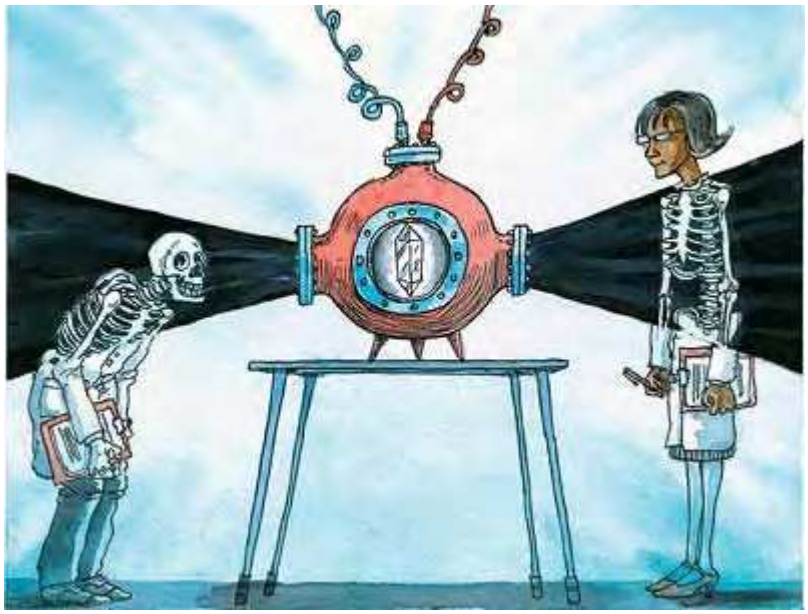
Cold fusion

Honest!

Apr 28th 2005
From The Economist print edition



A report of a desktop experiment that produces nuclear fusion is bound to raise eyebrows. But this time, the results look convincing

PHYSICISTS who meddle with cold fusion, like psychologists who dabble in the paranormal, are likely to be labelled quacks by their peers. This is due to an infamous incident in 1989 when Stanley Pons and Martin Fleischmann held a press conference to announce their discovery of nuclear fusion in what amounted to a test-tube full of water connected to a battery. In particular, they said that they were getting more energy out of the process than they put into it. Their result was instantly dubbed “cold fusion”, to contrast it with giant fusion-reactor experiments that attempt to reproduce the ultra-high temperatures found inside the sun. But when it failed to stand up to scrutiny, confusion—and eventually outrage—ensued.

In 2002, history repeated itself as farce with the announcement by a group at Oak Ridge National Laboratory in Tennessee of fusion inside the bubbles that are produced by ultrasonic waves travelling through a liquid. This result passed the peer-review process, but was immediately attacked by another group—from the same laboratory—which claimed to find no such effect. There was a counterclaim by yet a third team last year, and a final verdict on “bubble fusion” is still not in. But most people have lost interest in the debate, assuming that anyone claiming to have observed fusion in a desktop experiment is a crank or a fraud. This attitude, however, may yet turn out to be mistaken. Desk-top fusion may be possible after all, according to an article published in this week's *Nature* by three researchers at the University of California, Los Angeles (UCLA).

Brian Naranjo, Jim Gimzewski and Seth Putterman have been meticulous in their experiment, and in particular in their measurement of one of the tell-tales of nuclear fusion, the production of neutrons. Their results have been peer-reviewed, and they make no wild claims of surplus energy being produced. Given past excesses, such caution is understandable. And it may indeed be the case that their technique, which involves banging together the nuclei of deuterium atoms (a heavy form of hydrogen) using a tiny crystal in a palm-sized vacuum chamber, will never provide a source of power. It could have some interesting applications, nonetheless.

Energy from crystals

In principle, nuclear fusion is a simple process. All you have to do is push two suitable atomic nuclei close enough together for them to overcome their mutual electrical repulsion (since both are positively charged) and they will merge. This merger releases oodles of energy. The usual way to push nuclei together is to smash them into one another at high speed. In thermonuclear fusion (the sort that happens in the sun, in hydrogen bombs, and in traditional fusion experiments) that speed is achieved by heating the atoms up. But this, as Dr Naranjo and his colleagues realised, is not the only way to do things. You can, as they have done, simply accelerate a stream of nuclei to high velocity, and fire them into a stationary target.

Traditional accelerators, such as those used in particle-physics experiments, use high-voltage electricity to achieve this acceleration. However, they are cumbersome and they consume a lot of power while doing so. Dr Naranjo, by contrast, has devised a compact way of generating high voltages at much lower power using a so-called pyroelectric crystal.

Heating such a crystal (or, rather, warming it from -30°C to just above freezing point) deforms its structure in a way that concentrates positive charge in one place and negative charge in another. That results in a big voltage between the two. The researchers then amplified the effect of the positive charge by attaching a metal tip to the place where it was accumulating. This concentrated the electrical field in the same way that the point of a lightning conductor concentrates the stroke.

Dr Naranjo used this effect two ways: first to strip deuterium atoms of their electrons and second to repel the resulting stream of deuterium nuclei at high speed towards a target containing more deuterium. When two deuterium nuclei (each composed of a proton and a neutron) fuse, the result is a type of helium composed of two protons and a neutron, a free neutron, and a lot of energy. The bombardment also produces a lot of X-rays. By counting the neutrons and measuring the X-rays the researchers estimate that about 1,000 pairs of deuterium nuclei were fusing every second.

This is, as they are the first to admit, a long way from producing a significant amount of energy. And although they reckon they could boost the fusion rate 1,000-fold with better apparatus, that still might not reach the magic threshold of producing more energy than it takes to run the experiment. Beyond that, they are understandably unwilling to speculate.

This does not, however, mean that their device will have no applications. With only a little tweaking it could be turned into a handheld X-ray scanner, which would be a significant medical advance. Not yet a precursor to a starship engine, perhaps, but maybe an ancestor of Dr McCoy's portable diagnosis machine.

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Dietary advice

Pyramid selling

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Rebranding America's diet

TRYING to get Americans to eat a healthy diet is a frustrating business. Even the best-designed public-health campaigns cannot seem to compete with the tempting flavours of the snack-food and fast-food industries and their fat- and sugar-laden products. The results are apparent on a walk down any American street—more than 60% of Americans are overweight, and a full quarter of them are overweight to the point of obesity.

Now, health advocates say, an ill-conceived redesign has taken one of the more successful public-health campaigns—the Food Guide Pyramid—and rendered it confusing to the point of uselessness. Some of these critics worry that America's Department of Agriculture caved in to pressure from parts of the food industry anxious to protect their products.

The Food Guide Pyramid was a graphic which emphasises that a healthy diet is built on a base of grains, vegetables and fruits, followed by ever-decreasing amounts of dairy products, meat, sweets and oils. The agriculture department launched the pyramid in 1992 to replace its previous programme, which was centred on the idea of four basic food groups. The “Basic Four” campaign showed a plate divided into quarters, and seemed to imply that meat and dairy products should make up half of a healthy diet, with grains, fruits and vegetables making up the other half. It was replaced only over the strenuous objections of the meat and dairy industries.

The old pyramid was undoubtedly imperfect. It failed to distinguish between a doughnut and a whole-grain roll, or a hamburger and a skinless chicken breast, and it did not make clear exactly how much of each foodstuff to eat. It did, however, manage to convey the basic idea of proper proportions in an easily understandable way. The new pyramid, called “My Pyramid”, abandons the effort to provide this information. Instead, it has been simplified to a mere logo. The food groups are replaced with unlabelled, multi-coloured vertical stripes which, in some versions, rise out of a cartoon jumble of foods that look like the aftermath of a riot at a grocery store. Anyone who wants to see how this translates into a healthy diet is invited to go to a website, put in their age, sex and activity level, and get a custom-designed pyramid, complete with healthy food choices and suggested portion sizes. This is fine for those who are motivated, but might prove too much effort for those who most need such information.

Admittedly, the designers of the new pyramid had a tough job to do. They were supposed to condense the advice in the 84-page United States' Dietary Guidelines into a simple, meaningful graphic suitable for printing on the back of a cereal box. And they had to do this in the face of pressure from dozens of

special interest groups—from the country's Potato Board, which thought potatoes would look nice in the picture, to the Almond Board of California, which felt the same way about almonds. The Sugar Association did not want to see sucrose bad-mouthed, and the National Food Processors Association thought packaged foods should get more respect. Vegetarians wanted meat struck off, and Atkins diet advocates suggested dumping the carbs. Even the National Watermelon Promotion Board and the California Avocado Commission were eager to see their products recognised.

Nevertheless, many health advocates believe the new graphic is a missed opportunity. Although officials insist industry pressure had nothing to do with the eventual design, some critics suspect that political influence was at work. On the other hand, it is not clear how much good even the best graphic could do. Surveys found that 80% of Americans recognised the old Food Guide Pyramid—a big success in the world of public-health campaigns. Yet only 16% followed its advice.

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Malaria

Rolling out the rollback

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The war on malaria is heating up

Get article background

FIVE years ago, 44 African heads of state pledged to halve the number of deaths caused by malaria on their continent within a decade. Halfway through that decade, it looks, on the face of things, as though not a lot of progress has been made. At the moment, there are reckoned to be around 500m cases of malaria around the world every year, the vast majority in Africa. According to the forthcoming World Malaria Report 2005 there is no evidence that this has changed since 2000, although an earlier document, the Africa Malaria Report 2003, concluded that in some countries in the east and south of the continent the amount of malaria had actually increased.

According to a stinging editorial in last week's *Lancet*, one reason for this is that Roll Back Malaria (RBM), an alliance of organisations such as the World Health Organisation and the World Bank that have arrogated to themselves responsibility for dealing with the disease, is in “chaos”. RBM, the *Lancet* suggests, has not only failed to control malaria, its ineffectiveness has meant that malaria rates have actually increased. As Astrid James, the *Lancet*'s deputy editor, puts it, by “not issuing strong technical advice to individual countries related to the type of malaria, drug-resistance levels and funding, the RBM partnership contributed to the spread of drug resistance and therefore helped to ensure that the situation is now more difficult to combat than it was in 2000. In our opinion this constitutes harm.” All in all, the *Lancet* concludes, RBM may have done “more harm than good”. Coming from a heavyweight medical journal, this is a serious charge. But is it true?

It is certainly true that in the recent past RBM was indeed a mess. In 2002, an external report found that its loose organisational structure was failing and, as a consequence, decision-making was inhibited. In response, a supervisory board was introduced. Jon Liden, a spokesman for the Global Fund to fight AIDS, Tuberculosis and Malaria, an international charity that is one of the partners in RBM, agrees that the organisation has been “unruly and difficult”, but says that such criticisms are several years out of date. In any case, he says, the lack of progress on malaria has been due less to such ructions than to the lack of effective ways to address the disease. In particular, that means the absence of a way to combat the spread of resistance to traditional treatments such as chloroquine and sulfadoxine-pyrimethamine, and also, inevitably, a lack of money.

These obstacles, however, are now being removed—and this could lead to a revolution. The deployment of bednets impregnated with insecticides is helping prevent infection, while a new compound called artemisinin has emerged as an effective treatment for those already infected.

According to Mr Liden, the Global Fund is committed to buying and distributing 100m impregnated nets. The repellent qualities of such nets mean that they can protect an entire room (and therefore family) overnight. So in Africa, a continent with a population of around 800m and a tendency to large families, 100m nets could make a substantial impact.

Attitudes to treatment are also changing. In the past year the malaria-treatment policies of 21 countries, including those with the highest infection and mortality rates, have shifted from advocating outdated (but cheap) therapies with failure rates as high as 80% to using new treatments, such as that based on artemisinin, that have efficacy rates of around 98%.

The supply of artemisinin is rising to match this demand. Two years ago, only 20,000 doses were available. This year, that number is 30m. Next year it should be 100m. And on April 26th, the Global Fund announced that sub-Saharan African countries will receive an extra $170m over the next two

years—enough to pay for half those 100m doses each year.

The World Bank also had a fit of conscience last week when it said that its lack of a clearly funded programme for malaria control had not led to success over the past five years, and that its efforts so far were too modest. The bank proposes to raise between $500m and $1 billion over the next five years—cash that will be used to buy bednets and drugs, and also to provide support to countries that lower taxes on medicines used to treat the disease.

The upshot is that the future looks brighter than critics might have predicted. Whether malaria truly will be rolled back over the next five years remains to be seen. But the tools are now there. If they are not used, then the *Lancet*'s criticism will have proved justified after all.

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Biotechnology

A sweet rice pudding

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Genetically modified rice seems to deliver the goods

Get article background

WHILE rich countries squirm, poor ones are acting. The fastidiousness with which people in many wealthy nations (though not, as yet, America) have reacted to genetically modified (GM) crops is in sharp contrast to the way they have been embraced in poorer parts of the world. And a paper in this week's *Science* shows why. Huang Jikun, of the Chinese Academy of Sciences, in Beijing, and his colleagues, have been studying trials of two strains of GM rice that the Chinese government is hoping to commercialise. Their results show that in the hands of the small farmers who dominate the countryside these strains produce higher yields, consume less pesticide, and are better for the health of those farmers than non-GM strains.

Both strains are designed to enhance protection against insects. One uses the conventional and widely deployed technique of introducing a gene from a bacterium called *Bacillus thuringiensis* (*Bt*) into the crop. The gene in question encodes a protein that paralyses the digestive systems of insects but is harmless in vertebrates and is already employed routinely in GM cotton and maize. The other strain uses a gene from a cowpea plant. In this case the protein produced inhibits the activity of trypsin, one of the principal digestive enzymes—but again, acts only in insects.

Dr Huang and his colleagues looked at farms in eight villages in Hubei and Fujian provinces, where the new crops are being tried out. The farmers fell into three categories. Full adopters had converted all of their output to a modified strain. Partial adopters had converted some. Non-adopters acted as controls, planting traditional, unmodified strains.

The farmers' normal practice is to examine their crop frequently and apply insecticide when they think it necessary, rather than sticking to a pre-arranged schedule, so the amount of insecticide used is a reliable reflection of the crop's natural insect resistance. Here, the results were unequivocal. Unmodified rice required eight to ten times as much insecticide as modified rice—costing farmers an extra 200 yuan ($25) a hectare. Yields were also up to 9% better, at least with the *Bt*-based strain. And as a bonus, no full adopters reported being adversely affected by pesticide during the course of the trial, whereas up to 11% of non-adopters did.

The government has yet to decide whether to approve any form of GM rice for general use. But results like these will certainly encourage it.

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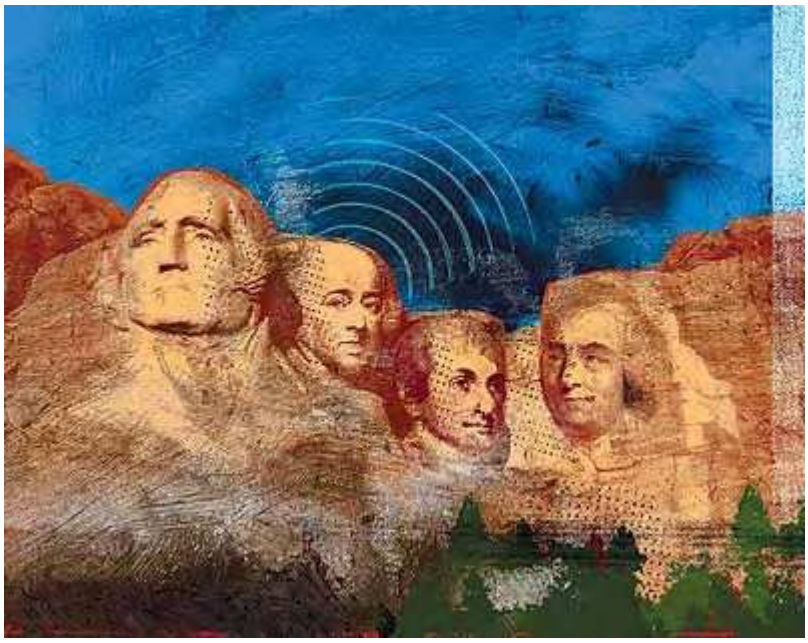
About sponsorship

America's Founding Fathers

Innocents abroad

Apr 28th 2005
From The Economist print edition



Three fine new biographies, of Benjamin Franklin, John Adams and John Jay, show the trials—and remarkable triumphs—of America's first diplomats

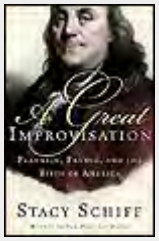
AS AMERICA'S chief envoy in Paris during its revolutionary war, Benjamin Franklin had few illusions about his job. “How can we fool ourselves that a monarchy will help republicans?” he tipsily asked a French dinner guest in 1777.

America's position, in the babyhood of its independence, did indeed look bleak. It was up against the world's best navy; General George Washington kept losing battles (see next review); and, as Franklin was all too aware, other European powers were loth to extend a helping hand for fear of inciting copy-cat revolutions at home.

And yet America prevailed—with crucial financial help from abroad. Without France's *livres* and its navy, Dutch loans and, arguably, Spain's declaration of war on Britain, American independence would have been in trouble. Credit for this belongs to the war-time diplomats, chiefly Franklin in Paris and John Adams in Amsterdam. In foot-dragging Spain, John Jay—an oddly overlooked figure who later became the first chief justice of the Supreme Court as well as a governor of New York—did his best. The three topped off their achievements by jointly negotiating the peace treaty with Britain, the terms of which were a coup for America.

How did a new and disorganised country with so little leverage wrangle so much from a sceptical Europe? Three new biographies, one of each man, piece together the remarkable story. Franklin is the liveliest figure. In “A Great Improvisation”, Stacy Schiff has produced an ebullient account of his years in France. Franklin's chief merit, at least initially, was his celebrity. “Monsieur François” was feted in Europe (especially by the ladies) for his scientific *sagesse*. His arrival in Paris

A Great Improvisation: Franklin, France, and the Birth of America
By Stacy Schiff



Henry Holt; 512 pages; $30

Buy it at
Amazon.com
Amazon.co.uk

John Adams: Party of One
By James Grant

helped popularise the American cause. Ms Schiff depicts Franklin as being hounded by young Frenchmen eager to take up arms. “The noise of every coach that now enters my court terrifies me,” Franklin groaned, as he scribbled “mad” or “wild” in the margins of some of the applications.

America needed money and arms more than gallants (who, not speaking English, could not even communicate with Washington's troops). So Franklin's chief task, after France entered a military pact with America in 1778, was to coax more money from Louis XVI. In the end he succeeded too well for the king. By the war's end France was bankrupt, clearing the way for Robespierre and his heavies.

Adams detested both Franklin and France, where he was initially sent. His diplomatic defects are squarely on display in “Party of One” by James Grant, who seems more interested in Adams's years abroad than in his presidency. Adams was a plain-spoken lawyer from Massachusetts. Indeed, Mr Grant recently suggested similarities between Adams and John Bolton, America's embattled and abrasive nominee for ambassador to the United Nations. Where Franklin happily indulged in French flirtations, Adams was scandalised that Parisian couples would invite their lovers to dinner. Returning the compliment, Comte de Vergennes, the French foreign minister, described Adams as having an “inflexibility, a pedantry, an arrogance and a conceit that renders him incapable of dealing with political subjects”.

However, Adams did better with the Dutch. In 1780 he went to Amsterdam to seek loans, an experience, he said, resembling that of “a man in the midst of the ocean negotiating for his life among a school of sharks.” America's bonds were regarded as junk, so he had to agree to pay 5% interest, a then-exorbitant rate. The task was especially difficult for a Yankee who hated the notion of debt.

For Jay, diplomatic success came towards the end of the war. Despite Jay's efforts in Spain, the king refused to recognise the United States and provided minimal financial aid. But Jay dazzled in the peace talks with Great Britain. Walter Stahr's even-handed account, the first big biography of Jay in decades, is riveting on the matter of negotiating tactics, as practised by Adams, Jay and Franklin. (Thomas Jefferson was supposed to be a fourth commissioner, but he reached France only in 1794, after the war had ended.)

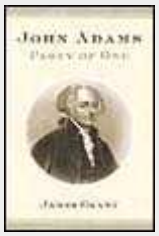
Jay's steadiness helped ease the hostility between Adams and Franklin. More important, he and Adams persuaded Franklin to deal with Britain without constant consultations with their French allies, which went against their instructions from the Continental Congress. But Jay felt that France, like a “broken reed, that will sooner or later pierce our hands”, was not to be trusted. Jay, a lawyer, haggled toughly for broader boundaries for the United States. Meanwhile Adams was unyielding on the surprisingly crucial question of whether American fishermen could still dry their catch on Newfoundland's shores after fishing in Canadian—that is British—waters.

Franklin died five years after his return from France. But for Jay and Adams, diplomatic duties continued. In 1785 Adams was named America's first ambassador in London, which, he groused, was a “fast, greasy metropolis”. There he became an ardent free-trader. Not so George III, who declined to enter into a commercial treaty with his former colonies.

Jay served as America's foreign secretary for several years after the Treaty of Paris and until Washington took office. Much of his time was spent trying to enforce the peace treaty. Many Americans, southerners especially, refused to pay pre-war debts to Britain; state laws often supported this contravention of the federal treaty. Tit for tat, the Brits refused to pull their troops from forts along America's northern border. So Jay pressured states to repeal their laws, and Americans to honour their part of the bargain. Intriguingly, Mr Stahr writes that one reason Jay sought the job of chief justice was in order to lay the legal groundwork for enforcing debt collection. All in all, a good precedent for American diplomacy.

A Great Improvisation: Franklin, France, and the Birth of America.
By Stacy Schiff.
Henry Holt; 512 pages; $30

John Adams: Party of One.
By James Grant.



Farrar, Straus and Giroux; 544 pages; $30

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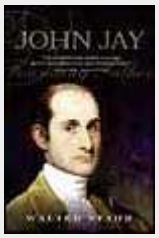
John Jay: Founding Father
By Walter Stahr



Hambledon and London; 496 pages; £19.99. Distributed in America by Palgrave Macmillan; $29.95

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About sponsorship

“The Hitchhiker's Guide to the Galaxy”

Hand over the money

Apr 28th 2005
From The Economist print edition

Hitching all the way to the bank

HE WAS a one-trick pony, but what a trick. The Douglas Adams bandwagon has just reached its logical destination with the release of the film version of “The Hitchhiker's Guide to the Galaxy”. So far, the idea, which Adams claimed he dreamed up while trying to sleep in a foreign field as a penniless hitchhiker, has been incarnated as a radio show, a television series, a “trilogy in five parts” of novels, a computer game, a stage play and, in a case of life imitating art, a website that attempts to recreate the original idea of an encyclopedic, if erratic, guide to Life, the Universe and Everything. In this context, a movie was inevitable.

Perhaps equally inevitable is that it is posthumous. Adams, who died four years ago, likened the process of putting together a film deal to grilling a steak by having a series of people walk through a room and breathe on it. No doubt there is something in that, but it is also true that he wanted so much control over the process that deals, though tantalisingly close at times, never quite seemed to get signed. In an ironic twist on the Silicon Valley adage that to make an invention commercially viable you have to shoot the inventor, it was Adams's death that unlocked the process.

The tension between artistic integrity and commerce is clearly apparent in the final cut. At times, the journey of bemused earthling Arthur Dent, his alien companions and his totally unbemused fellow earthling, Trillian, is as wacky and entertaining as it was a quarter of a century ago, when the idea first crackled over the airwaves of the BBC. At other points, though, the heavy hand of Disney's plot police is rather too visible. The romance between the two surviving earthlings, non-existent from Trillian's point of view in other versions of the story, is played up and there is a disappointingly happy ending. But perhaps you have to have such things to be big at the box office. As Zaphod Beeblebrox, president of the Imperial Galactic Government, so aptly put it: “It's partly the curiosity, partly a sense of adventure, but mostly I think it's the fame and the money.”

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George Washington

The dignified founder

Apr 28th 2005
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AS A general, George Washington was no tactical genius: stamina and luck were what mostly won him the Revolution. Nor was he a polished politician like James Madison or a brilliant thinker on a par with Alexander Hamilton. The most durable document of the time—America's constitution—contains no direct contribution from Washington who, despite presiding over the 1787 Constitutional Convention, spoke up only once on a minor matter.

What then propelled Washington to his status as America's hero-in-chief? This puzzle lies at the heart of Joseph Ellis's eloquent study, which came out in America last October and has just been published in Britain. Getting a handle on Washington's personality and motivations is difficult. His diary recounts details of meetings and battles, but rarely his views. His wife Martha burned their correspondence after his death, doubtless to keep personal matters from the prying eyes of history.

His Excellency: George Washington
By Joseph J. Ellis

Knopf; 352 pages; $26.95.
Faber and Faber; £20

Buy it at
Amazon.com
Amazon.co.uk

But sternness and reserve could not have been Washington's chief qualities, or he would never have risen so far. Mr Ellis shows a man guided by conviction and ambition. Oddly, his revolutionary leanings had a strong foundation in home economics. As lord of Mount Vernon and having acquired a wealthy wife, Washington sent to London for all sorts of fripperies, from silk aprons to foxhunting prints. He soon found himself uncomfortably in debt and moved to break free from the English merchants, just as the loathsome Stamp Act was sparking outrage elsewhere. He never looked back. (Later, economics would also play a role in Washington's famous directive in his will to free his slaves after his wife's death: supporting too many ageing slaves on the farm was bad for the bottom line.)

After the first stirrings of war, Washington was the only one to show up to the Continental Congress in May 1775 in military uniform. His selection as head of the army was further assured by his great height—and, more important, because choosing a Virginian would secure the support of the richest colony. Washington protested his lack of qualifications—as he later did upon assuming the presidency—but this was regarded as mere “postured reticence”, to use Mr Ellis's apt phrase.

Once in charge, “His Excellency”—as revolutionary officials addressed him—did not dither. His novice command blundered early, with the army almost getting trapped on Manhattan. But Washington was pragmatic and learned from mistakes. He preferred large stand-and-fight battles, which had greater chance for resolution and glory, but came to accept his subordinates' counsel that such grandstanding could destroy his rag-tag army. The final battle at Yorktown came about despite Washington's fixation with attacking New York. The French fleet insisted on going to Virginia, and he wisely followed with the army.

This was a man whose faith in the cause never flagged over his long years in the field. Washington displayed a remarkable ability to lead, not just by bucking up the troops during the awful winter at Valley Forge, but also by keeping highly capable aides around him. This was even more true of the presidency. His skills as a delegator, and as an arbitrator of squabbles, became especially useful in sifting through cabinet officers' wildly differing agendas. Equally important, Mr Ellis points out, is what Washington was not. He was incorruptible; he won his stature by merit, not blood; and he never put power before principle.

For Founding Fathers' enthusiasts, the book contains little by way of surprises. Indeed, it leaves a few question marks. The contention in the preface that Washington was the “most ambitious” of the founders

seems a stretch. Hamilton surely had that superlative locked up. Mr Ellis also fails to explore adequately the origin of Washington's most enduring belief—that the military should be subject to civilian control. Nonetheless, through the thicket of scholarship on America's first commander-in-chief, here emerges a compelling portrait of a leader with innards of steel behind the famous reserve.

His Excellency: George Washington.
By Joseph J. Ellis.
Knopf; 352 pages; $26.95. Faber and Faber; £20

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Motherhood

Mommy myths

Apr 28th 2005
From The Economist print edition

IT'S hell in the playroom. Being a mother has become one of America's most stressful occupations. Judith Warner's rambling howl of misery about the pressure to be a perfect mother has touched a nerve. Lots of women, it seems, feel that the feminist promise of choice—of the option to combine motherhood and a glamorous career—has turned out to be a fraud.

Why is home life so grim? Child-rearing has always been competitive and pushy parents are nothing new. But in a society that is both conformist and competitive, pressure to be a "winner-takes-all parent" is strong. Mum takes the brunt, although American mothers seem to be their own worst enemies, relentlessly marching their children off to improving activities so as to leave no scrap of potential untapped.

The women Ms Warner interviewed for her book had frequently set out on promising careers. Once the children came along, the promise faded. Husbands, to whom the book gives a bad press, are too preoccupied with their own careers to help much. So the erstwhile female high-flier finds herself collecting her husband's dry-cleaning, picking up his boxer shorts and packing her children's social calendar. Her job, meanwhile, goes to young men who are not so encumbered.

Perfect Madness: Motherhood in the Age of Anxiety
By Judith Warner

Riverhead Books; 304 pages; $23.95

Buy it at
Amazon.com
Amazon.co.uk

But families still need the income of a two-earner household. Middle-class family incomes, Ms Warner points out, have stagnated for 30 years. And there are new demands: private-school enrolment is up, university tuition costs more, health care is expensive. So the vast majority of mothers work outside the home as well as in it, juggling demands all round.

The new fashion in parenting theories has increased those demands. Gone is the happy view of the 1970s that the needs of mother and child could both be met by spending more time apart—the one at the office, the other in child care. Instead, John Bowlby's attachment theory is making a comeback, condemning mothers who leave their children to the care of others. With it comes a vogue for interminable breast-feeding, "co-sleeping" (taking the little dears to bed with you) and endless parental attention. No wonder American mothers are weary.

What is the answer? Ms Warner has little to offer, apart from a misty-eyed memory of motherhood in France, where children play happily in parks and the government subsidises child care. In fact, plenty of French mums also resent their husbands and yearn for a satisfying job.

But two things would surely improve the lot of America's miserable mums. One is more realistic expectations—on the part of men as well as women. It's no good teaching girls to expect careers if boys do not also learn to use the washing machine. And teaching girls that they can have a career is different from teaching them that they must. Women's lives will always be more heterogeneous than those of men, and both women and men need to accept that diversity.

Secondly, mothers need to stop trying quite so hard. Children are there to enjoy. Stop stimulating and go and sit in the sandpit instead.

By Judith Warner.
Riverhead Books; 304 pages; $23.95

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Sport

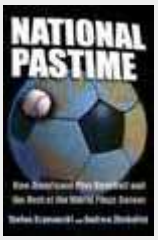
Bat and ball

Apr 28th 2005
From The Economist print edition

ONE industry is competitive, globalised and financially self-sufficient. The other is monopolistic, inward-looking and accustomed to handouts from the taxpayer. Now, here's a puzzle. One of these industries is based in America, while the other was founded in northern Britain in the late 19th century. Which is which?

Oddly, the more energetic of these two industries is British. Football, or soccer, is one of the world's most competitive businesses. As Stefan Szymanski and Andrew Zimbalist, two economists of sport, explain, that is because most football teams are organised into hierarchical national leagues linked by promotion and relegation. Anyone who can assemble a squad of good players can start competing. If the team keeps winning it will rise to the top of the domestic leagues, at which point it can compete against foreign clubs. A squad that keeps losing will move just as rapidly in the opposite direction, shedding supporters and revenue as it goes.

National Pastime: How Americans Play Baseball and the Rest of the World Plays Soccer
By Stefan Szymanski and Andrew Zimbalist



Brookings Institution Press; 263 pages; $26.95 and £15.99

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Not so baseball teams. America's favourite summer sport is played by a 30-team cartel that is specifically exempt from antitrust laws. No club is in danger of being demoted from the major leagues except through a kind of administrative *fatwa*, which is not exercised very often. As in football, winning games means more money for a team—but so does losing, thanks to a system in which the richest baseball clubs pay millions of dollars to the poorest. Most outrageous is the fact that local taxpayers often end up subsidising the construction of new stadiums. Since the supply of teams is deliberately held below the level of demand, owners can hold cities to ransom, threatening to move if the public coffers are not opened.

Professional football and baseball leagues emerged at roughly the same time in the late 19th century. Why did they turn out so differently? One reason is British snobbery about mixing money and sport. While the owners of baseball teams pursued profit (and monopoly power) from the beginning, the mandarins of football clung to the traditions of amateurism derived from cricket. Gentlemen insisted on being allowed to compete with salaried “players”—something that would have been impossible in a closed league.

For a long time, baseball players had the best of it. The sport was quick to realise that radio and television would enhance revenues rather than deplete them. In football, that argument was not won until the 1980s; until then, revenues and pay remained pitiful. When Babe Ruth, a Yankees star, was told the salary of Dixie Dean, one of football's brightest lights, he commented: “What a racket that is! What's the chances of me buying into one of those football or cricket clubs?”

The truth is that at the beginning nobody was making much money from football. They still don't, although television means more money moves around these days. The struggle to climb the league ladder—or, at least, to avoid sliding down—means that a large proportion of revenues must be spent on wages and transfer fees, such as David Beckham's £24.5m ($40.7m) ticket out of Manchester United in 2003.

In some cases, salaries actually surpass revenues. As a result, few football clubs are profitable. No team ever goes bust, thanks to civic pride and the desire of rich men to own something prestigious, but they can come perilously close. And the gap between the biggest and smallest spenders widens every season.

In the final chapter, the authors suggest a remedy: a pan-European football league of six divisions, with

fewer teams promoted and relegated each year. That might restore balance and restraint to an industry that often seems more interested in success than in profit. On the other hand, it would make football less competitive and more monopolistic—in other words, more like baseball.

By Stefan Szymanski and Andrew Zimbalist.
Brookings Institution Press; 263 pages; $26.95 and £15.99

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New fiction

Soft focus

Apr 28th 2005
From The Economist print edition

FIRST serial publication in the *New Yorker*, a blurb from J.M. Coetzee, 15 foreign-rights sales—such fanfare inevitably raises expectations. But in the case of Nicole Krauss's much-touted second novel, perhaps the bar has been raised higher than this charming, though hardly heart-wrenching, book can reach.

The Jewish protagonist Leo Gursky wrote an eponymous book-within-a-book back in Poland, which he fled during the second world war. Now living in Brooklyn and in his 80s, Leo has lost everything—homeland, best friend, son, true love and manuscript. Yet unbeknownst to this retired locksmith, who has never written anything since, “The History of Love” was published in Chile under another man's name. Indeed, a faceless benefactor has commissioned a widow in New York to translate the text into English for an astounding sum.

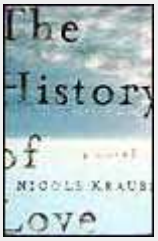
Enter the second, delicately connected thread of the story: the translator and her 14-year-old daughter, Alma, named after the heroine in Leo's book. When she is not trying to fix up her bereaved mother with her mysterious benefactor, studying “How to Survive in the Wild”, or keeping a stern eye on a younger brother who believes he's the messiah, Alma plays sleuth, tracking down the real author of a book that has exerted such an uncanny pull on her whole family.

Ms Krauss is adept at the control of information. Her own “History of Love” presents at first a set of disconnected puzzle pieces, which the novel proceeds artfully to interlock. Clues are dropped in just the right places. Narrative tension is maintained, secrets are kept, but never at the cost of being befuddling.

Yet the novel is marred by a cloying quality, and the children are often too precious. Excerpts of Gursky's fabled novel are not always as moving or lyrical as the author may intend, and err fatally on the side of whimsy. A chapter on angels is nauseously cute: “It's true that they don't have a sense of smell, but angels, in their infinite love for the living, go around smelling everything in emulation. Like dogs, they don't feel bashful about going up and sniffing each other.” The sugariness of the tone is at odds with the tale's Holocaust backdrop, and may be too sticky for those with more savoury palates. Nevertheless, Leo Gursky is a winning character. Whether or not this novel lives up to its billing, his story is told with skill.

By Nicole Krauss.
Norton; 320 pages; $23.95.
Viking; £12.99

The History of Love
By Nicole Krauss



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Obituary

Eduardo Paolozzi

Apr 28th 2005
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Rex

Eduardo Paolozzi, pioneer of pop art, died on April 22nd, aged 81

WHEN Eduardo Paolozzi was a guest professor at the University of California in 1968 he mostly turned down invitations to visit the state's numerous and well-endowed art galleries and museums. He spent his free time in Disneyland, in computer centres, in aircraft and car factories, in Hollywood studios. No one who knew him was very surprised. Mr Paolozzi was fascinated by what he saw as the real world. Fascinated, and appalled.

He had built up a reputation as a pioneer of pop art, in which unconsidered trifles, perhaps some scraps from a magazine, or a soup can, are turned into something more: a work of art. Pop art had been invented, or at least developed, in Britain in the 1950s and had then taken hold in America, where Andy Warhol was its most famous practitioner with his pictures of Campbell's Condensed Soup. Mr Paolozzi's contribution to pop art had been acknowledged in many international exhibitions, notably a one-man show in New York's Museum of Modern Art in 1964.

Pop art can be in various forms, collages, screen prints, sculptures, mosaics. Mr Paolozzi did them all. And all in their way reflected his view that the rich world was wasteful. He could not bear to throw away such things as a nice bottle or box. Friends were bemused by the gifts he enthusiastically presented them with, an old plastic ashtray, a bicycle bell. In his work, he said, he tried to rescue something from a thriftless society: think of it as a health warning against thoughtless waste. Mr Paolozzi's experience in California confirmed his view that the world was bowing unthinkingly in the direction of the wasteful Americans.

The revolutionary

In the 1920s the parents of Eduardo Luigi Paolozzi had emigrated from Italy to Leith, in Scotland, where they set up an ice-cream parlour. They were what today are called economic migrants. Work was scarce in Italy, but Eduardo's father had no quarrel with Mussolini and each summer he sent his son to a fascist youth camp. Eduardo's main memory of that time was of the colourful Italian uniforms. In 1940, when Italy entered the second world war on the side of Germany, his father and grandfather were arrested. They died when the ship taking them to internment in Canada was torpedoed. His mother was at first

moved inland, the authorities fearing that she might spot the movements of warships. But eventually she and her son were allowed to carry on satisfying the Scots' craving for soft ice-cream.

Eduardo had a year in the army, digging trenches in the unlikely event that with war nearing its end the Germans would invade. It is unclear when he decided to be an artist, but he seems to have been a natural. The drawings he showed to the Edinburgh College of Art won him an immediate place. He moved to the prestigious Slade School in London and in 1947, at the age of 23, he had a one-man show, at which everything was sold. *Horizon*, the leading arts magazine of the time, wrote about his work.

He did what young artists had been doing for a hundred years and are still doing today: he went to Paris, the world capital of art. In his pocket he had letters of introduction to Braque, Giacometti and other idols. In Paris the rudiments of what became pop art were there for the taking: the Dadaists had rejected tradition, Picasso had experimented with collage, the Surrealists pushed imagination to its limits. Eduardo returned to Britain after three years with his mind full of revolution.

The critics, bored with academic painting, loved his collages. Eduardo moved on to challenge the “new traditionalists”, such as Henry Moore and Barbara Hepworth, whose sculpture, once derided, had become part of the art establishment. Along with other young sculptors, such as Anthony Caro and Reg Butler, he experimented with new materials to reflect, as he put it, the “dynamism” of the time.

He might start with a conventional-looking figure cast in bronze, but when you got close you saw it was disfigured with bits of junk reclaimed from rubbish dumps. His damaged figures struck a chord and won him many prizes and honorary degrees and more commissions than he could cope with. His sculptures can be seen in many cities in Europe and North America. London provided him with one of its best sites for his statue of Isaac Newton: the forecourt of the new British Library. His mosaics decorating the walls of Tottenham Court Road underground station in central London beguile the thousands of people using it each day.

Scotland is proud of him and most of its galleries have examples of his work; and Mr Paolozzi, who thought of himself as a European, admired Scotland for its ancient links with France. His last major piece was a bronze and timber train nostalgically titled “London to Paris”. The queen, ever ready with a handy honour, made him her “sculptor in ordinary” for Scotland.

In 1989 he was knighted. Sir Eduardo had become part of the establishment, as Henry Moore had before him. He was asked what he thought of the new generation of artists. He said that conceptual and installation art would fade from fashion. It was short on intellect and did not involve craftsmanship. What next, then? Paris, he said, probably still had much to offer.

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Overview

Apr 28th 2005
From The Economist print edition

Deflation persists in Japan. Consumer prices fell for the seventh fiscal year in a row, slipping by 0.2% in the 12 months to March. The Bank of Japan keeps a close eye on another index that excludes fresh food prices. By this measure, consumer prices fell by 0.3%. There was some inflation in goods prices, which increased by 0.2% over the year. But services fell in price by 0.4%.

Japan's unemployment rate fell to 4.5% in March, down from 4.7% the month before. The number of people out of work in Japan now totals 3.13m, down by 200,000 over the past year. Workers' household spending increased by 1.7%, in real terms, in the year to March.

In the **United States**, business investment appeared to slacken. Orders for durable goods dropped by 2.8% in March; orders for core capital goods fell by 4.7%. Consumers also lost confidence, according to the Conference Board's barometer for April, which slipped to its lowest reading since November. Nonetheless, more new homes were sold in March than ever before: 1.4m of them.

Spirits also flagged in **France** and **Germany**. According to INSEE's survey, the confidence of French businessmen in April was at its lowest level for 18 months. Not to be outdone, German business confidence was at a 19-month low in April, according to the IFO survey. **Belgium's** GDP did not grow at all in the first quarter of this year, but was 1.8% higher than in the same quarter last year.

In **Sweden**, unemployment fell to 5.5% in March, from 5.8% the year before.

Canada's consumer prices rose by 2.3% in the year to March, above the Bank of Canada's target rate of 2%.

Britain's GDP grew by 0.6% in the first quarter, and by 2.8% on a year ago. Finance and business services were strong in the first three months of 2005. Production industries, such as energy extraction and utilities, contracted.

Oil prices slipped back, after Saudi Arabia promised to raise production and invest in new capacity, and America announced higher stocks of crude. The price of a barrel of West Texas Intermediate oil, a benchmark, fell below $52 on April 27th, following America's announcement that its stocks were at their highest level since May 2002.

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Output, demand and jobs

Apr 28th 2005
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2005	2006	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 1.5	Q4	+ 0.6	+ 2.6	+ 3.2	– 0.4	Q4	+ 2.2	Q4	5.1	Mar	5.6
Austria	+ 2.1	Q4	+ 1.1	+ 2.1	+ 2.1	+ 8.8	Jan	– 1.2	Jan	4.6	Mar	4.5
Belgium	+ 1.8	Q1	nil	+ 2.1	+ 2.2	– 1.0	Feb	– 4.2	Jan	12.6	Mar†	12.7
Britain	+ 2.8	Q1	+ 2.2	+ 2.5	+ 2.2	– 0.1	Feb	+ 2.7	Mar	4.8	Feb††	4.8
Canada	+ 3.0	Q4	+ 1.7	+ 2.7	+ 3.0	+ 3.7	Jan	+ 6.5	Jan	6.9	Mar	7.3
Denmark	+ 2.9	Q4	+ 3.2	+ 2.1	+ 2.2	– 4.9	Feb	+ 6.3	Feb	5.9	Feb	6.6
France	+ 2.4	Q4	+ 3.5	+ 2.0	+ 2.1	+ 1.2	Feb	+ 2.1	Feb	10.1	Feb	10.0
Germany	+ 1.5	Q4	– 0.9	+ 0.9	+ 1.5	+ 1.6	Feb	– 1.1	Jan	11.8	Apr§	10.5
Italy	+ 0.8	Q4	– 1.7	+ 1.0	+ 1.5	– 2.5	Feb	– 3.1	Jan	8.0	Dec	8.2
Japan	+ 0.8	Q4	+ 0.5	+ 1.1	+ 1.9	+ 1.1	Mar	+ 1.2	Feb	4.5	Mar	4.7
Netherlands	+ 1.6	Q4	+ 0.1	+ 1.1	+ 1.7	+ 0.1	Feb	– 2.1	Jan‡	6.6	Mar**	6.4
Spain	+ 2.7	Q4	+ 3.4	+ 2.7	+ 2.6	– 0.7	Feb	+ 2.4	Feb	10.3	Feb	11.1
Sweden	+ 2.0	Q4	+ 1.4	+ 2.7	+ 2.7	+ 2.9	Feb	+ 4.3	Feb	5.5	Mar†	5.8
Switzerland	+ 1.2	Q4	– 0.3	+ 1.3	+ 1.8	+ 4.7	Q4	– 3.0	Feb	3.9	Mar†	4.1
United States	+ 3.9	Q4	+ 3.8	+ 3.7	+ 3.2	+ 3.9	Mar	+ 5.3	Feb	5.2	Mar	5.7
Euro area	+ 1.8	Q4	+ 0.8	+ 1.5	+ 1.9	+ 0.6	Feb	+ 1.0	Feb	8.9	Feb	8.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 3.6	Q4	+ 2.5	na	na	– 0.7	Feb	+ 5.9	Feb	8.5	Mar†	9.5
Greece	+ 4.2	Q4	na	na	na	– 1.5	Feb	– 2.9	Jan	10.5	Jun	9.6
Iceland	+ 3.8	Q4	na	na	na	na		na		2.8	Feb†	3.6
Ireland	+ 2.8	Q4	na	na	na	– 5.7	Feb	+ 8.6	Feb	4.3	Mar	4.6
Luxembourg	+ 2.1	2003	na	na	na	+ 1.8	Jan	– 2.6	Feb	4.7	Feb	4.3
New Zealand	+ 3.6	Q4	+ 2.4	na	na	+ 3.5	Q4	+ 6.8	Q4	3.6	Q4	4.5
Norway	+ 3.2	Q4	+ 6.1	na	na	– 2.0	Feb	+ 5.9	Feb	3.7	Mar‡	3.9
Portugal	+ 0.6	Q4	– 1.1	na	na	+ 0.7	Feb	+ 3.7	Feb	7.1	Q4†	6.5

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Dec-Feb; claimant count rate 2.7% in Mar. §EU harmonised rate 9.7% in Feb. **Jan-Mar.

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Prices and wages

Apr 28th 2005
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2005	2006	latest		year ago	latest		year ago
Australia	+ 2.4	Q1	+ 2.0	+ 2.6	+ 2.7	+ 6.0	Q1	– 1.1	+ 3.0	Q4	+ 6.0
Austria	+ 2.9	Mar	+ 1.5	+ 2.0	+ 1.6	+ 4.0	Mar	+ 3.0	+ 2.2	Mar	+ 2.1
Belgium	+ 2.8	Apr	+ 1.9	+ 1.9	+ 1.7	– 1.1	Feb	+ 2.4	+ 2.3	Jan	+ 1.9
Britain	+ 1.9	Mar*	+ 1.1	+ 1.8	+ 1.8	+ 2.8	Mar	+ 1.4	+ 4.7	Feb†	+ 4.9
Canada	+ 2.3	Mar	+ 0.7	+ 1.9	+ 2.1	+ 2.3	Feb	– 1.9	+ 1.8	Jan	+ 4.3
Denmark	+ 1.4	Mar	+ 0.7	+ 1.5	+ 1.8	+ 4.2	Mar	+ 0.3	+ 2.8	Q4	+ 3.5
France	+ 1.9	Mar	+ 1.7	+ 1.6	+ 1.6	+ 3.1	Mar	+ 0.3	+ 3.0	Q4	+ 2.7
Germany	+ 1.5	Apr	+ 1.6	+ 1.3	+ 1.1	+ 3.3	Mar	+ 1.0	+ 1.3	Feb	+ 1.9
Italy	+ 1.9	Mar	+ 2.3	+ 1.9	+ 1.9	+ 4.7	Feb	+ 0.1	+ 3.4	Feb	+ 2.8
Japan	– 0.2	Mar	– 0.1	nil	+ 0.3	+ 1.4	Mar	+ 0.2	+ 0.1	Feb	+ 2.0
Netherlands	+ 1.8	Mar	+ 1.1	+ 1.3	+ 1.4	+ 5.5	Feb	– 1.6	+ 0.9	Mar	+ 1.7
Spain	+ 3.4	Mar	+ 2.1	+ 2.8	+ 2.6	+ 5.1	Mar	+ 0.8	+ 2.6	Q4	+ 3.3
Sweden	+ 0.1	Mar	– 0.1	+ 0.7	+ 1.5	+ 2.5	Mar	– 1.4	+ 2.0	Dec	+ 2.8
Switzerland	+ 1.4	Mar	– 0.1	+ 1.1	+ 1.2	+ 1.4	Mar	– 0.1	+ 1.4	2003	+ 1.8
United States	+ 3.1	Mar	+ 1.7	+ 2.6	+ 2.5	+ 4.9	Mar	+ 1.5	+ 2.6	Mar	+ 1.8
Euro area	+ 2.1	Mar	+ 1.7	+ 1.8	+ 1.6	+ 4.2	Feb	nil	+ 2.2	Q4	+ 2.1
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.0	Mar	– 0.6	na	na	+ 2.4	Mar	– 0.6	+ 3.0	Q4	+ 4.2
Greece	+ 2.9	Mar	+ 2.7	na	na	+ 3.3	Jan	+ 1.5	na		na
Iceland	+ 4.3	Apr	+ 2.2	na	na	+ 6.6	Apr	+ 2.7	+ 6.5	Mar	+ 3.8
Ireland	+ 2.1	Mar	+ 1.3	na	na	– 0.4	Feb	– 6.6	+ 5.1	Q4	+ 4.5
Luxembourg	+ 2.4	Mar	+ 1.8	na	na	+16.3	Feb	– 0.6	nil	Jan	+ 2.6
New Zealand	+ 2.8	Q1	+ 1.5	na	na	+ 3.4	Q4	– 0.1	+ 2.5	Q4	+ 2.3
Norway	+ 1.0	Mar	– 0.6	na	na	+17.5	Mar	+ 3.3	+ 3.9	Q4	+ 3.9
Portugal	+ 2.2	Mar	+ 2.3	na	na	+ 4.7	Mar	+ 0.3	– 0.9	Feb	+ 0.8

*New series. RPI inflation rate 3.2% in Mar. †Dec-Feb.

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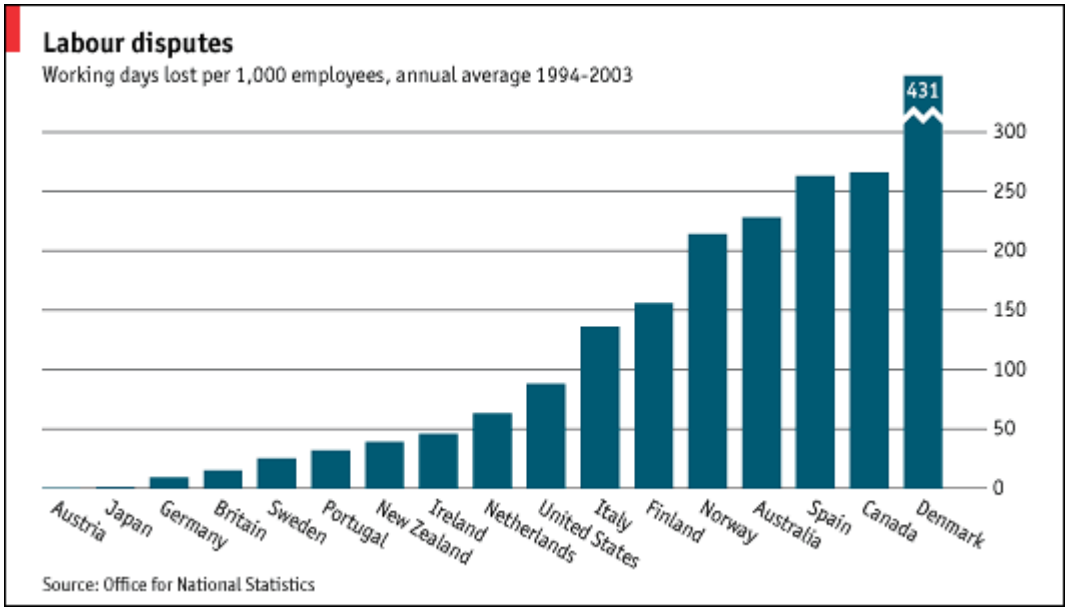
Labour disputes

Apr 28th 2005
From The Economist print edition



The strike rate—the number of working days lost through labour disputes per 1,000 employees—has fallen in the past ten years. Between 1999 and 2003, it was 54% lower in the production and construction sectors of the OECD than in the previous five years. At 431, Denmark's strike rate was the highest of any OECD member over the past ten years. The European Union average for that period was 73.

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Money and interest rates

Apr 28th 2005
From The Economist print edition

	Money supply* % change on year ago			Interest rates % a year (Apr 27th 2005)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 2.0	+ 8.9	Feb	5.73	5.54	5.24	5.39	5.84	6.31
Britain	+ 5.2	+10.4	Mar	4.88	4.38	4.53	4.54	5.00	5.22
Canada	+11.8	+10.8	Mar	2.45	1.95	3.08	4.21	4.66	5.56
Denmark	+15.6	+ 9.5	Mar	2.18	2.12	2.22	3.44	4.32	4.95
Japan	+ 4.5	+ 2.1	Mar	0.02	0.02	0.08	1.26	1.52	1.35
Sweden	+ 3.3	+ 3.6	Mar	1.97	2.01	2.29	3.39	4.57	3.15‡
Switzerland	– 5.6	+ 2.0	Mar	0.76	0.29	1.00	2.06	2.71	1.99
United States	+ 3.3	+ 4.9	Mar	3.12	1.06	3.63	4.23	4.46	5.23
Euro area†	+ 9.3	+ 6.5	Mar	2.13	2.06	2.29	3.38	4.14	3.86

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. ‡New series. Benchmarks: US 30-year 4.55%, Japan No. 269 1.26%. Central bank rates: US fed funds 2.75%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.75%. Sources: Bank of Canada, Commerzbank, Danske Bank, J.P. Morgan Chase, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Apr 28th 2005
From The Economist print edition

2000=100

	Apr 19th	Apr 26th*	% change on one month	% change on one year
Dollar index				
All items	133.7	134.9	– 0.6	– 2.5
Food	127.5	129.9	+ 0.7	– 8.5
Industrials				
All	141.7	141.2	– 2.0	+ 5.8
Nfa†	130.1	129.8	– 2.2	–10.6
Metals	148.1	147.5	– 2.0	+16.1
Sterling index				
All items	105.8	107.4	– 2.1	– 8.3
Euro index				
All items	94.9	96.2	– 0.9	–10.4
Yen index				
All items	132.9	132.7	– 1.9	– 5.7
Gold				
$ per oz	432.50	435.98	+ 2.2	+10.0
West Texas Intermediate				
$ per barrel	52.28	54.00	– 0.4	+44.0

* Provisional. † Non-food agriculturals.

Our commodity-price index was rebased in February 2005.

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Stockmarkets

Apr 28th 2005
From The Economist print edition

Market indices

	Apr 27th	2005 high	2005 low	% change on one week	% change on record high	% change on Dec 31st 2004 in local currency	% change on Dec 31st 2004 in $ terms
Australia (All Ordinaries)	3,987.5	4,255.8	3,936.5	– 0.3	– 6.3	– 1.6	– 2.5
Austria (ATX)	2,591.4	2,781.6	2,415.0	– 0.8	– 6.8	+ 6.6	+ 1.7
Belgium (Bel 20)	3,042.3	3,197.3	2,958.8	– 0.9	–17.4	+ 3.7	– 1.1
Britain (FTSE 100)	4,789.4	5,060.8	4,783.6	– 0.7	–30.9	– 0.5	– 1.2
Canada (Toronto Composite)	9,323.5	9,927.2	9,006.2	– 0.6	–18.1	+ 0.8	– 3.0
Denmark (KBX)	285.5	294.6	257.8	– 1.0	– 5.4	+10.7	+ 5.5
France (SBF 250)	2,719.8	2,855.6	2,633.6	– 0.7	–38.1	+ 3.3	– 1.5
(CAC 40)	3,927.7	4,124.4	3,816.1	– 0.6	–43.3	+ 2.8	– 2.0
Germany (DAX)	4,189.0	4,428.1	4,178.6	+ 0.2	–48.1	– 1.6	– 6.1
Italy (S&P/MIB)*	30,946.0	32,856.0	30,645.0	– 0.3	–38.2	+ 0.1	– 4.5
Japan (Nikkei 225)	11,005.4	11,966.7	10,938.4	– 0.7	–71.7	– 4.2	– 7.3
(Topix)	1,130.3	1,203.3	1,109.5	– 0.1	–60.8	– 1.7	– 4.9
Netherlands (AEX)	350.5	379.8	350.1	– 0.9	–50.0	+ 0.7	– 4.0
Spain (Madrid SE)	969.0	1,025.8	950.9	– 0.3	–15.5	+ 1.0	– 3.6
Sweden (Affarsvarlden Gen)	227.9	240.4	218.9	– 2.6	–43.1	+ 3.0	– 2.9
Switzerland (Swiss Market)	5,840.6	6,030.5	5,669.6	– 1.3	–30.6	+ 2.6	– 1.9
United States (DJIA)	10,198.8	10,940.6	10,012.4	+ 1.9	–13.0	– 5.4	– 5.4
(S&P 500)	1,156.4	1,225.3	1,137.5	+ 1.7	–24.3	– 4.6	– 4.6
(NASDAQ Comp)	1,930.4	2,152.2	1,908.2	+ 0.9	–61.8	–11.3	–11.3
Europe (FTSEurofirst 300)†	1,059.7	1,107.6	1,038.6	– 0.5	–37.8	+ 1.7	– 3.0
Euro area (FTSE Euro 100)†	899.1	952.4	894.4	– 0.3	–42.0	– 0.2	– 4.8
World (MSCI)‡	1,123.7	1,193.0	1,117.1	+ 0.5	–22.4	– 3.9	– 3.9
World bond market (Citigroup)††	657.2	662.3	642.6	+ 0.1	– 0.8	– 1.3	– 1.3

*New index. †In euro terms. ‡Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Apr 28th 2005
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current-account balance $bn latest 12 mths	Current-account balance The Economist poll % of GDP, forecast 2005	Current-account balance The Economist poll % of GDP, forecast 2006	Exchange rate trade-weighted† 2000=100 Apr 27th	Exchange rate trade-weighted† 2000=100 year ago	Currency units per $ Apr 27th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2005‡
Australia	− 18.1 Feb	− 39.4 Q4	− 5.7	− 5.1	115.7	113.4	1.29	1.38	2.46	1.67	1.22	+ 0.4
Austria	− 0.1 Feb	− 0.9 Feb	− 0.6	− 0.8	105.8§	105.5	0.77	0.84	1.47	–	0.73	− 2.1
Belgium	+ 17.6 Feb	+ 12.0 Dec	+ 3.3	+ 3.3	107.7§	107.2	0.77	0.84	1.47	–	0.73	− 0.4
Britain	−107.3 Feb	− 49.0 Q4	− 2.7	− 2.7	101.5	100.9	0.52	0.56	–	0.68	0.49	− 3.2
Canada	+ 50.9 Feb	+ 23.4 Q4	+ 1.7	+ 1.5	114.8	105.9	1.25	1.37	2.38	1.61	1.18	+ 1.2
Denmark	+ 9.4 Feb	+ 7.2 Feb	+ 2.2	+ 2.1	106.3	105.3	5.74	6.28	11.0	7.45	5.42	+ 1.4
France	− 15.2 Feb	− 9.6 Feb	− 0.2	− 0.1	108.6§	108.0	0.77	0.84	1.47	–	0.73	− 3.1
Germany	+198.3 Feb	+107.5 Feb	+ 3.1	+ 3.0	110.2§	109.6	0.77	0.84	1.47	–	0.73	− 3.5
Italy	− 2.3 Feb	− 16.8 Feb	− 1.0	− 1.0	108.1§	107.6	0.77	0.84	1.47	–	0.73	− 3.1
Japan	+126.6 Feb	+169.5 Feb	+ 3.5	+ 3.6	87.9	88.5	106	110	202	137	–	− 6.4
Netherlands	+ 37.6 Feb	+ 24.1 Q4	+ 3.3	+ 3.3	108.5§	108.0	0.77	0.84	1.47	–	0.73	− 2.7
Spain	− 79.9 Feb	− 53.8 Jan	− 4.5	− 4.5	106.0§	105.6	0.77	0.84	1.47	–	0.73	− 0.1
Sweden	+ 23.0 Mar	+ 28.0 Q4	+ 6.8	+ 6.3	99.1	97.9	7.05	7.70	13.5	9.14	6.66	+ 0.7
Switzerland	+ 7.0 Mar	+ 40.8 Q4	+11.5	+11.5	107.9	105.9	1.19	1.31	2.27	1.54	1.12	− 0.6
United States	−693.1 Feb	−665.9 Q4	− 6.1	− 5.9	82.7	88.9	–	–	1.91	1.30	0.94	− 4.1
Euro area	+ 82.0 Feb	+ 50.6 Feb	+ 0.5	+ 0.5	117.8	113.6	0.77	0.84	1.47	–	0.73	− 2.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 13.0 Feb	+ 8.5 Feb	na	na	109.2§	108.9	0.77	0.84	1.47	–	0.73	+ 2.1
Greece	− 32.1 Jan	− 10.5 Feb	na	na	104.9§	104.6	0.77	0.84	1.47	–	0.73	− 3.5
Iceland	− 0.6 Feb	− 1.0 Q4	na	na	98.1**	90.2	63.5	74.0	121	82.4	60.0	+ 1.2
Ireland	+ 41.4 Feb	− 0.8 Q4	na	na	114.2§	113.1	0.77	0.84	1.47	–	0.73	− 0.1
Luxembourg	− 4.6 Jan	+ 2.9 Q4	na	na	107.7§	107.2	0.77	0.84	1.47	–	0.73	− 0.8
New Zealand	− 3.0 Mar	− 6.2 Q4	na	na	136.7	123.7	1.38	1.61	2.63	1.78	1.30	+ 2.1
Norway	+ 36.5 Mar	+ 34.4 Dec	na	na	107.9	105.5	6.25	6.91	11.9	8.11	5.90	+ 10.5
Portugal	− 19.2 Jan	− 13.6 Feb	na	na	105.8**	105.1	0.77	0.84	1.47	–	0.73	− 3.0

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, February average. ‡OECD forecast.
**IMF, December average. ††New series.

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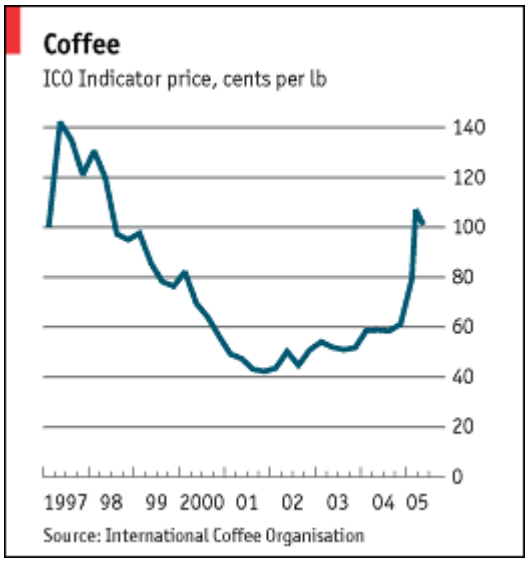
Coffee

Apr 28th 2005
From The Economist print edition

The cash crisis for coffee growers is easing. Prices have doubled in 16 months to seven-year highs. Coffee production is forecast to be below demand for the second season in a row in 2005-06. Brazil's crop is expected to fall by 16%.



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Overview

Apr 28th 2005
From The Economist print edition

Russia's GDP growth slackened to 4.9% in the year to the first quarter. Industrial output rose by 4.0% in the 12 months to March.

The Philippines reduced its trade deficit to a mere $100m in the year to February. **Brazil** chalked up a current-account surplus of $12.7 billion in the year to March.

In **South Africa**, consumer prices rose by 3.0% in the year to March. In **Singapore**, they rose by 0.4% over the same period.

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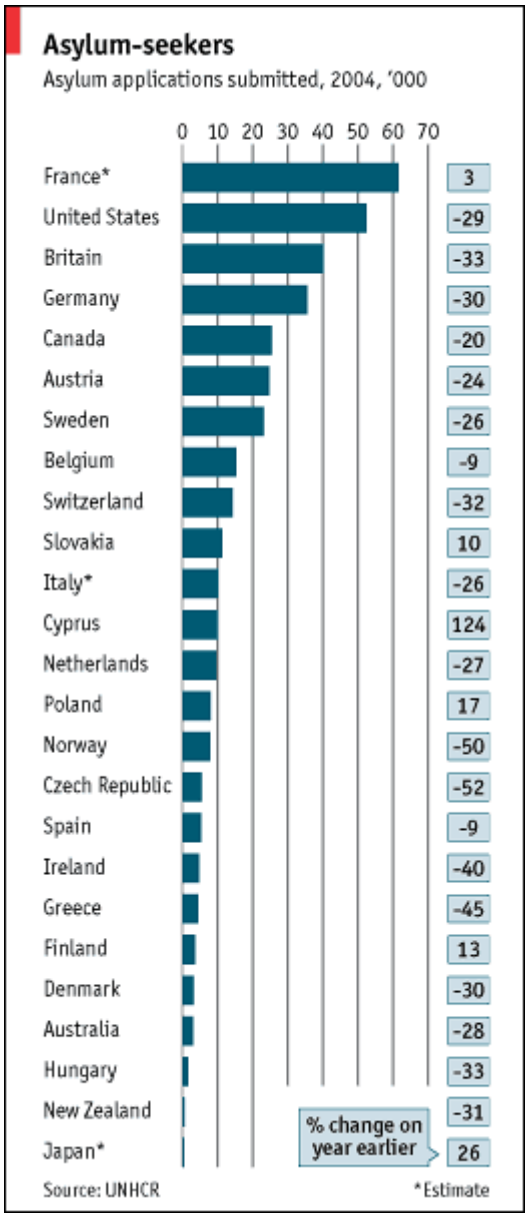
Asylum-seekers

Apr 28th 2005
From The Economist print edition

The number of people seeking political asylum in rich countries fell by around 22% between 2003 and 2004. In the Netherlands, applications have dropped by 27%, thanks to tougher policies. The United States, which was the top destination for asylum-seekers in 2003, saw a 29% decline in new applicants last year. Applications rose in France, which entertained more pleas for asylum than any other rich country in 2004. Russia, for the second year in a row, produced more asylum-seekers than any other country.



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Economy

Apr 28th 2005
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.5	Q1	+15.1	Mar	+ 2.7	Mar	+57.3	Mar	+45.9	2003	659.1	Mar
Hong Kong	+ 7.1	Q4	+ 5.0	Q4	+ 0.8	Mar	−11.2	Feb	+16.0	Q4	122.4	Mar
India	+ 6.2	Q4	+ 4.9	Feb	+ 4.2	Feb	−25.0	Feb	− 3.9	Q4	135.3	Mar
Indonesia	+ 6.7	Q4	− 5.7	Jan	+ 8.8	Mar	+26.7	Feb	+ 2.9	Q4	35.2	Feb
Malaysia	+ 5.6	Q4	+ 8.5	Feb	+ 2.6	Mar	+21.9	Feb	+15.1	Q4	71.0	Feb
Philippines	+ 5.4	Q4	+ 5.5	Jan	+ 8.5	Mar†	− 0.1	Feb	+ 2.1	Dec	13.8	Mar
Singapore	+ 2.4	Q1	−10.2	Feb	+ 0.4	Mar	+15.8	Mar	+27.9	Q4	112.9	Mar
South Korea	+ 3.3	Q4	+ 4.8	Mar	+ 3.1	Mar	+29.7	Mar	+27.3	Feb	205.4	Mar
Taiwan	+ 3.3	Q4	− 0.8	Mar	+ 2.3	Mar	+ 4.5	Mar	+19.0	Q4	251.1	Mar
Thailand	+ 5.1	Q4	− 1.8	Feb	+ 3.2	Mar	− 0.9	Feb	+ 4.5	Mar	48.5	Feb
Argentina	+ 8.4	Q4	+ 5.4	Mar	+ 9.1	Mar	+12.0	Feb	+ 3.0	Q4	19.6	Mar
Brazil	+ 4.9	Q4	+ 4.4	Feb	+ 7.5	Mar	+35.9	Mar	+12.7	Mar	58.5	Feb
Chile	+ 7.3	Q4	+ 3.5	Feb	+ 2.4	Mar	+ 9.0	Mar	+ 1.4	Q4	15.4	Mar
Colombia	+ 4.3	Q4	+ 2.0	Jan	+ 5.0	Mar	+ 0.9	Dec	− 1.1	Q4	12.6	Mar
Mexico	+ 4.9	Q4	+ 2.0	Feb	+ 4.4	Mar	− 9.9	Mar	− 8.7	Q4	64.0	Feb
Peru	+ 6.8	Feb	+ 3.3	Jan	+ 1.9	Mar	+ 3.0	Feb	− 0.1	Q4	13.6	Mar
Venezuela	+11.2	Q4	+ 8.9	Jan	+15.8	Mar	+22.1	Q4	+14.6	Q4	18.8	Jan
Egypt	+ 4.7	Q4	+ 3.3	2004‡	+ 9.5	Jan	− 9.0	Q4	+ 4.3	Q4	15.7	Feb
Israel	+ 4.8	Q4	+ 2.2	Feb	+ 0.7	Mar	− 7.0	Mar	+ 0.5	Q4	27.1	Mar
South Africa	+ 4.7	Q4	+ 2.7	Feb	+ 3.0	Mar	− 2.6	Feb	− 7.0	Q4	14.2	Mar
Czech Republic	+ 4.3	Q4	+ 5.6	Feb	+ 1.5	Mar	− 0.7	Feb	− 5.6	Q4	27.5	Mar
Hungary	+ 3.8	Q4	+ 1.3	Feb	+ 3.5	Mar	− 2.9	Q4	− 8.8	Q4	17.3	Mar
Poland	+ 3.9	Q4	+ 2.1	Feb	+ 3.4	Mar	− 5.0	Jan	− 3.6	Jan	41.1	Feb
Russia	+ 4.9	Q1	+ 4.0	Mar	+12.8	Feb	+93.3	Feb	+60.1	Q4	133.7	Mar
Turkey	+ 6.3	Q4	+14.9	Feb	+ 7.9	Mar	−35.4	Feb	−16.4	Feb	36.7	Feb
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 5.8	Q4	+ 6.8	Feb	+ 5.0	Mar	− 1.7	Feb	− 1.4	Q4	1.6	Feb
Latvia	+ 8.6	Q4	+ 1.3	Feb	+ 6.4	Mar	− 2.8	Feb	− 1.7	Feb	2.0	Feb
Lithuania	+ 6.7	Q4	na		+ 3.2	Mar	− 3.0	Feb	− 1.6	Q4	3.6	Feb
Slovakia	+ 5.8	Q4	nil	Feb	+ 2.5	Mar	− 1.6	Feb	− 1.5	Dec	16.7	Feb
Slovenia	+ 4.3	Q4	+ 0.5	Feb	+ 3.1	Mar	− 1.6	Feb	− 0.3	Feb	8.6	Jan
Pakistan	+ 6.4	2004‡	+28.3	Nov	+10.2	Mar	− 6.0	Mar	− 0.9	Q4	10.5	Feb
Saudi Arabia	+ 5.3	2004	na		+ 0.8	Jan	+68.5	2004	+28.0	2003	24.7	Jan

*Excluding gold, except Singapore; IMF definition. †New series ‡Year ending June, new series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

Apr 28th 2005
From The Economist print edition

	Currency units per $ Apr 27th	Currency units per $ year ago	Currency units per £ Apr 27th	Interest rates short-term % a year	Stockmarkets Apr 27th	% change on one week	% change on Dec 31st 2004 in local currency	% change on Dec 31st 2004 in $ terms
China	8.28	8.28	15.8	2.10	1,205.1	– 3.0	– 9.4	– 9.4
Hong Kong	7.80	7.80	14.9	2.21	13,839.6	+ 2.5	– 2.7	– 3.1
India	43.7	44.1	83.3	5.10	6,278.5	+ 0.6	– 4.9	– 5.3
Indonesia	9,558	8,641	18,230	7.73	1,032.2	– 3.6	+ 3.2	+ 0.2
Malaysia	3.80	3.80	7.25	2.82	872.5	+ 0.1	– 3.9	– 3.9
Philippines	54.3	55.7	103.6	5.69	1,830.3	– 1.3	+ 0.4	+ 3.7
Singapore	1.65	1.70	3.14	2.13	2,145.3	+ 0.8	+ 3.8	+ 2.9
South Korea	1,003	1,157	1,913	3.49	930.2	– 0.8	+ 3.8	+ 7.2
Taiwan	31.4	33.0	60.0	1.40	5,778.3	+ 1.5	– 5.9	– 5.1
Thailand	39.5	39.8	75.4	2.65	664.6	– 2.9	– 0.5	– 2.3
Argentina	2.90	2.85	5.53	4.75	1,356.3	+ 3.6	– 1.4	+ 1.1
Brazil	2.52	2.93	4.80	19.49	25,241.0	+ 0.7	– 3.6	+ 1.7
Chile	580	623	1,107	3.36	9,241.5	– 1.4	+ 3.1	– 1.2
Colombia	2,337	2,633	4,457	7.26	4,929.5	+ 3.7	+ 13.4	+ 14.2
Mexico	11.1	11.3	21.2	9.61	12,454.7	+ 5.2	– 3.6	– 3.2
Peru	3.26	3.48	6.22	2.98	4,008.9	– 2.2	+ 8.0	+ 8.7
Venezuela	2,701§	2,942§	5,152	12.59	25,115.5	– 7.3	– 16.1	– 20.0
Egypt	5.80	6.18	11.06	10.47**	36,387.4	+ 6.5	+ 48.0	+ 54.9
Israel	4.37	4.60	8.33	na	670.2	– 0.5	+ 4.1	+ 3.0
South Africa	6.07	6.85	11.6	7.05	12,793.1	– 0.8	+ 1.1	– 6.2
Czech Republic	23.3	27.7	44.5	2.02	1,142.8	– 1.8	+ 10.7	+ 6.0
Hungary	193	212	367	7.56	16,796.2	+ 1.1	+ 13.9	+ 6.9
Poland	3.27	4.03	6.23	5.61	25,939.4	– 0.5	– 2.6	– 10.7
Russia	27.7	28.9	52.9	13.00	675.1‡	– 0.1	+ 10.0	+ 9.9
Turkey	1.37	1.43	2.62	16.79	24,070.1	– 0.4	– 3.6	– 5.4
EMF (MSCI)*	1.00	1.00	1.91	na	537.6	+ 0.6	– 0.8	– 0.8
EMBI+†	1.00	1.00	1.91	na	331.3	+ 0.6	+ 0.5	+ 0.5

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate. **New series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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